

Written Statement by
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“Modernization of the North American Free Trade Agreement”

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Good Morning, Chairman Reichert, Ranking Member Pascrell, and distinguished members of the Subcommittee. It is a great honor to appear before you today to discuss the importance of the North American Free Trade Agreement and efforts to preserve and modernize it.

My name is Tom Linebarger and I am Chairman and CEO of Cummins Inc. I also serve as Chair of the International Engagement Committee for the Business Roundtable.

Background

Cummins Inc. is a nearly one hundred year old company founded and headquartered in Columbus, Indiana. Since 1919, we’ve become the largest independent producer of diesel engines in the world and we’ve done this through constant technological innovation and by bringing our customers the right power solution at the right time for each unique application.

We also manufacture highly complex components like turbochargers, fuel systems, filters and aftertreatment systems – all of which has enabled us to build high-performing and clean products able to meet emission standards anywhere in the world.

We provide power for a wide range of products including small passenger trucks, tractor-trailers that move goods across the country, pick-up and delivery trucks, to transit and school buses. You will also find our products in refuse trucks, mining equipment, oil-and gas operations, passenger trains, tug boats, and mobile power systems that support our military to critical backup power systems that keep data centers and hospitals up and running 24 – 7.

We also provide power to National Landmarks that many of us see every day, like Wrigley Field and the Statue of Liberty.

We have more than 55,000 employees globally and operate in over 190 countries throughout the world. In the United States, we have manufacturing facilities in Indiana, Minnesota, New York,

North Carolina, South Carolina, Tennessee, and Wisconsin. In addition to our manufacturing operations in the United States, we also own all of our distributor branches with locations in almost every state.

Importance of Trade to Cummins and the Business Community

I believe trade expansion, in general, and NAFTA are good policy. However, my support for both has grown even stronger over my career at Cummins. As CEO, I am charged with providing opportunities for the employees of Cummins and to help strengthen the communities in which we live and work. For our employees and our communities, international trade has been the single most important contributor to growth and hiring at Cummins for nearly two decades. In the past four years alone, we've created about 8,000 jobs in the United States, despite very challenging economic conditions over that entire span.

I appear in front of you today to share my perspective on NAFTA, to emphasize the positive impact that trade and trade agreements have on American businesses and workers and to offer my thoughts on potential areas of modernization.

Currently, 95 percent of the world's consumers reside outside the United States. For Cummins to continue to be successful, add new jobs, and invest in new technologies; it is imperative that we are able to access international markets and consumers with high-quality and competitively priced products.

NAFTA and our other free trade agreements have allowed us to do this and over the past decade we have added thousands of new, quality American jobs in cities like Minneapolis, MN, and Nashville, TN, and more rural locations like Whitakers, NC, Jamestown, NY, and Seymour, IN where we make our products.

Let's take the RAM truck, for example. Cummins manufactures the engine just outside of Columbus, Indiana; exports it to Mexico where Chrysler finishes assembly, and then it is imported back into the U.S. for sales in North America and other parts of the world.

The Ram is cost-effective and successful because of NAFTA. Its robust sales have contributed to significant growth and the addition of great jobs at the Columbus plant where the 6.7L RAM engines continue to be manufactured today. And just in the past four years, we've added nearly 100 jobs at this plant.

The story of the RAM's journey is not unique to just Cummins. On average, of the goods that are imported from Mexico into the United States, 40 percent of the content originated from the United States. Cummins alone relies on 2,500 direct U.S.-based suppliers like Indiana-based Batesville Tool and Die or Illinois-based Camcraft – a supplier I will discuss in more detail later.

Seymour, Indiana is another example of how trade injects an incredible stimulus of jobs and economic impact to a small town. Seymour is where our global high-horsepower engine headquarters is based. Seymour is a small town of less than 20,000 about an hour and half south of Indianapolis in the heart of the Midwest.

While many surrounding rural communities are struggling, Seymour is thriving. Seymour has an incredibly low unemployment rate of about three and a half percent and job growth is at the same rate – three and a half percent. Trade is a key contributor to this success.

Cummins decided to locate our high-horsepower headquarters in Seymour over other international locations including India and the United Kingdom because of our access to a great American workforce, our ability to access high quality domestic suppliers and proximity to our supply chain.

Since we made that decision, we have invested more than \$300 million to renovate the plant and added a state of the art technical center. We now have more than 1,300 employees in this community – nearly doubling the number based there five years ago.

We were able to add jobs and make these investments almost exclusively because of our ability to access international markets. We directly export 65 percent of the products made in Seymour, Indiana to countries across the world and another 20 percent are shipped to our plant in Fridley, Minnesota where they are made into power generators and then exported. This means about 85 percent of the products made in Seymour are exported.

Being able to access the 95 percent of consumers that live outside our borders is also critical if we want to remain a technology leader. Cummins invests nearly \$700 million annually in research and development. We are looking at technologies, like electrification, that will ensure we will be around for the next 100 years. We are positioned to lead and win because our broad and global customer base gives us the scale advantage to make necessary investments to the technologies that will carry us into the future.

There is no question U.S. jobs are reliant on our ability to access international markets. To me it is simple – when we can trade, we add jobs and invest in our American communities.

And it is not just Cummins and its employees that benefit. This fuels related jobs and economic growth and allows our employees to improve the community by getting involved in organizations like the Community Education Coalition in Seymour, Indiana to build stronger education systems and help to ensure that the next generation will have the skills needed for the jobs of tomorrow. A modernized NAFTA and other free trade agreements make success stories like this possible.

NAFTA breaks down barriers to create markets for U.S. manufactured goods

Since NAFTA's bipartisan passage and enactment in 1994, overall trade has increased between all three countries, with U.S. manufactured goods exports to Canada and Mexico more than tripling over that period. The two largest importers of Cummins products are Canada and Mexico.

Prior to the agreement, Mexico was one of the most protectionist countries in the world, with automotive imports into Mexico facing tariffs as high as 20 percent. Mexico also had non-tariff barriers, like local content requirements of 80 percent, which all but mandated that our

production take place within the country's borders. Additionally, importation of parts faced extremely high duties and we were required to export 107 percent of our imports value to be able to import service parts.

NAFTA brought down these trade barriers and allowed us to avoid duplication of our manufacturing capacity to take care of Mexico engine and components demand. We were able to close our assembly operations in Mexico and leverage our installed capacity in United States therefore increasing our efficiency in United States.

Additionally, we were able to reduce duplication in our supply base and increase the volume purchased from our existing suppliers in United States. Today, Cummins Inc. sells nearly \$600 million worth of products into Mexico's market each year, of which, 80 percent is imported from the United States. While we still have a manufacturing presence in Mexico, on average, of the goods we ship into the United States from these plants, 60 percent of the raw materials originated from the United States.

Similarly, Canada has proved a strong market for Cummins products. With its extractive industries, remote locations and long distances between major cities, Canada is a top destination for many of our larger engines. Just looking at the mining sector, our top 10 mining customers in Western Canada bought nearly \$77 million of engines, parts and services in 2015.

United States' Suppliers Benefit from Trade

The benefits don't stop directly with Cummins though. Trade has a positive ripple effect throughout the U.S. economy in a supply chain generating billions of dollars in revenue and thousands of jobs. Our success also enables our 2,500 domestic suppliers to be more successful and create jobs.

For example, we will purchase more than \$15 million in fuel system components from Camcraft this year, whose facilities are located in the western suburbs of Chicago. Additionally, more business is being created at Camcraft to support our latest technologies and that amount is forecast to grow to over \$25 million over the next two years.

Employment at Camcraft has grown to approximately 300 employees with dozens more needed to support current growth, half of which are directly supported by products that they supply to plants in Mexico for not only Cummins but companies like Caterpillar as well as Tier One and Tier Two North American auto suppliers.

The components we buy from Camcraft are some of the most complicated we design and are critical in allowing us to maintain our position as a global leader in meeting the most stringent emission and fuel economy standards across all markets.

Manufacturing this type of product requires well trained and highly skilled people working on the latest machine tool technologies -- these are excellent, high paying jobs that represent the best in American manufacturing. Because of the work we've placed at Camcraft along with their

other customers, they are now building an additional 100,000 square foot building in Bartlett, Illinois.

Camcraft along with its subsidiary, Matrix Design, LLC -- an automation integration company located in South Elgin, Illinois -- have added 150 employees over the last four years and now employ over 420 people.

Revenue is up 56 percent since 2010, with forecasted growth of another 20 percent over the next two years, and 36 percent of that total shipping to Mexico or Canada.

Camcraft CEO, Mike Bertsche, recently shared with me that since making their first shipments to Mexico in 2001, Camcraft's revenue is up 134 percent. Trade agreements like NAFTA and others have allowed their sales to expand globally in a fashion that was not available to them previously.

NAFTA Modernization

As the United States embarks on renegotiating NAFTA next month, it is imperative we take a comprehensive approach to this and other trade expansion tools, because our foreign economic competitors are certainly not standing still. Currently, 41 million U.S. manufacturing, services and other trade-related jobs are tied to international trade. That's more than one in five jobs. In our own backyard, a Brookings Institute led study cited Columbus, Indiana as the single most trade dependent community in the United States.

However, the original NAFTA was negotiated over 20 years ago, and as you are very aware, the manner and landscape in which we do business has changed a great deal since this time. I believe we should proactively embrace this opportunity to modernize and strengthen NAFTA. At the same time, we should preserve the existing agreement and not move backwards.

A modernized NAFTA should incorporate trade, investment and related regulatory reforms in Canada and Mexico since its adoption; promote digital commerce and cross-border data flows; ensure fair U.S. competition with foreign state-owned enterprises and protect U.S. intellectual property rights.

In a digital age, we think a modernized NAFTA should include provisions that enable cross-border data flows—for all types of data. This will provide Cummins with the most flexibility to move telematics (and other) data between the US, Canada and Mexico. An updated NAFTA should also prohibit members from forcing companies to use or locate computing facilities or servers within a member country. We also believe it should restrict members from requiring the transfer of, or access to, software source code and encryption as a condition for the import, distribution, sale, or use of commercial software in a member country.

We also believe that NAFTA's environmental and labor standards should be strengthened and incorporated into the updated agreement itself. Over the last two decades, other U.S. trade agreements have included stronger labor and environmental standards.

In addition to the areas I just highlighted, we worked closely with the Business Roundtable to develop a more in depth outline of opportunities to modernize NAFTA and have submitted them to USTR Robert Lighthizer. I have included a copy of this letter in this submission, for your reference.

Closing

Mr. Chairman, Mr. Ranking Member and members of the Subcommittee, my overwhelming support for trade expansion and NAFTA comes from the difference I have seen that it makes for Cummins, our suppliers, our employees and their families. I know that it makes our communities and economy stronger.

It provides high quality jobs at Cummins in communities across the United States like Jamestown, New York to Rocky Mount, North Carolina, to Columbus and Seymour Indiana. It helps families thrive and it allows our employees to get involved and make these communities even better places to live.

Thank you again, for the great honor and privilege to speak to you all today. If I can provide any information to you in the future on behalf of Cummins Inc. or the Business Roundtable, I would be honored to discuss this issue or any other issue with you or your staff.