

EVALUATION OF THE AMERICAN AUTOMOBILE LABELING ACT

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Abstract

Congress passed the American Automobile Labeling Act (AALA) to help consumers in the selection of new vehicles by providing information about the country of origin of vehicles and their parts. Passenger vehicles manufactured after October 1, 1994 must have labels specifying their percentage value of U.S./Canadian parts content, the country of assembly, and countries of origin of the engine and transmission.

The evaluation is based on a consumer survey to see if new-vehicle purchasers know about the labels, understand them, and/or use them to help select a vehicle; manufacturer and dealer surveys to learn about their response to the labels; and statistical analyses of the actual trends in U.S./Canadian parts content in new motor vehicles after 1994. Over 75 percent of consumer survey participants, even those that care deeply about "buying American," were unaware of the existence of the AALA labels. Many participants who did read the label said they used the country-of-assembly information, but none said they used the numerical U.S./Canadian parts content score or the engine/transmission information. Overall U.S./Canadian parts content in new cars and light trucks dropped from 70 percent in model year 1995 to 67.6 percent in 1998; however, it increased from 47 to 59 percent in transplants while dropping from 89 to 84 percent in Big 3 vehicles. The trends in parts content are undoubtedly influenced by the 1995 U.S.-Japan Agreement on Autos and Auto Parts and the North American Free Trade Agreement (NAFTA).

Executive Summary

The American Automobile Labeling Act (AALA) was enacted in October 1992 in order to aid potential purchasers in the selection of new passenger motor vehicles by providing them with information about the country of origin of vehicles and their parts. The AALA provides that new passenger cars, pickup trucks, vans and sport utility vehicles manufactured on or after October 1, 1994 have labels specifying the percentage value of the U.S./Canadian parts content of each vehicle, the country where the vehicle was assembled, and the countries of origin of its engine and transmission. On July 21, 1994, the National Highway Traffic Safety Administration (NHTSA) published a new regulation to implement the AALA (Part 583 of Title 49 of the *Code of Federal Regulations*).

The Government Performance and Results Act of 1993 and Executive Order 12866 require agencies to evaluate their existing regulations to see if they are achieving their objectives and to assess their impacts. This report evaluates the AALA from two aspects. First, since AALA is an information program, NHTSA surveyed 646 consumers in 1998 who had bought or leased a new vehicle during the past six months or were planning to buy or lease within the next three months to find out what percentage had heard of the labels, read them, understood them, and/or used them to help select a vehicle. Because if nobody reads, or nobody understands, or nobody uses the labels, they are not achieving their objective of providing information to potential purchasers. The survey investigated how many consumers think the country of origin of vehicles/parts is critically important information and if these consumers in particular are reading and using the labels to assist their purchasing decisions. NHTSA also surveyed manufacturers and dealers to learn about their activities and costs to produce and disseminate the labels.

The principal finding was a disconnect between consumers' ignorance of the labels and their belief in the importance of buying a U.S./Canadian product. The great majority of consumers were unaware of the existence of the labels, only 7 percent had read the label at a dealership, and not a single person explicitly stated they had used the numerical parts-content score on the AALA label to comparison-shop

among make-models according to their percentages of U.S./Canadian parts content. In fact, the only data on the label that a substantial number of consumers called influential was the country of final assembly. (Actually, country-of-assembly information was available to consumers before the AALA, but not necessarily in a standardized and conveniently accessible form like the AALA labels.)

Yet, one-sixth of the survey participants, a proportion that would extrapolate to 2,500,000 new-vehicle sales per year in the United States, rate it critically important that vehicles be made in the U.S. or Canada and, more generally, always try to "buy American" when they go to a store. But even this group is no more cognizant of the labels than the average consumer. They mostly "buy American" simply by acquiring any Big 3 vehicle assembled in North America. They are not using the numerical parts-content scores to comparison-shop for models with the highest U.S./Canadian parts content. Second, the report statistically analyzes sales data to track the share of U.S./Canadian parts and assemblies in new vehicles during 1994-98. Did it rise or fall? How do trends in motor vehicles compare to other consumer products such as radios or refrigerators? Did make-models that increased U.S./Canadian parts content experience, on the average, higher or lower sales?

In this context, however, it is important to recognize that well before the AALA, in fact since the 1960's, a series of laws, regulations, international agreements, incentives and economic conditions have motivated foreign-based manufacturers to transplant some of their assembly and parts facilities to North America. Above all, a 1995 U.S.-Japan Agreement on Autos and Auto Parts explicitly aimed to increase U.S. parts content in the transplant vehicles of Japanese-based companies. These market analyses just tell us what actually happened to vehicle sales in 1995-98. They will not tell us to what extent, if any, AALA labels influenced the observed trends.

The introduction of AALA labels in model year 1995 was not followed by a resurgence of U.S./Canadian parts content in the overall new-vehicle fleet, but rather a modest decline from an average of 70 percent in model year 1995 to 67.6 percent in model year 1998. The net effect, however, conceals two trends working in opposite directions. Transplant vehicles (assembled in North America by foreign-based manufacturers) increased their proportion of U.S./Canadian parts from 47 to 59 percent and reduced their content of overseas parts. At first glance, that could be a response to the labels. But the strong, explicit terms of the 1995 U.S.-Japan Agreement and the current dearth of consumer interest in AALA's numerical parts-content scores intuitively suggest that the Agreement and earlier actions have had more influence than the AALA labels. (However, the parts-content scores on the AALA labels have helped Federal agencies monitor progress under the U.S.-Japan Agreement.)

The Big 3 reduced U.S./Canadian parts content from 89 to 84 percent in 1995-98, apparently by sourcing or purchasing more parts in Mexico. The net shift, in essence, is largely from overseas countries to Mexico, a plausible development given the North American Free Trade Act (NAFTA).

In 1992-98, unprecedented prosperity and a strong dollar in the United States were associated with increases in net imports for most consumer goods, such as refrigerators, carpets, or furniture. The automotive industry, with programs such as AALA, the U.S.- Japan Agreement, etc. did not massively differ from the economy-wide pattern, but the growth in import dependence for motor vehicles and parts was just a bit smaller than the average for other consumer goods.

Here are the principal findings of the evaluation, followed by a list of conclusions, a synopsis of the impact of AALA to date, and possible future strategies to enhance consumer awareness and use of AALA information - or to reduce the burden of AALA. CONSUMERS' AWARENESS AND INFLUENCE BY THE AALA LABELS In a survey of 646 people who had bought or leased new vehicles during the past 6 months or were planning to do so within 3 months:

- 23%* knew of the existence of the AALA label
- 15%* said they had seen an AALA label
- 7%* had read the label at a dealership
- 5%* said they were influenced by the label to any degree whatsoever

- 2%* were moderately or strongly influenced by the label because it identified the vehicle's country of assembly
- nobody said they used the labels to comparison-shop among make-models according to their percentages of U.S./Canadian parts content

*The percentages in this table are based on the full set of 646 participants and they are not additive. Each group is a subset of all the preceding groups. For example, 5 percent of the 646 participants said they were influenced by the label to any degree whatsoever, and all of these had also read the label at a dealership, seen it, and knew of its existence (i.e., belonged to all three preceding groups).

Dealers concurred that the country-of-assembly is the information on the AALA label most important to consumers.

CONSUMERS' UNDERSTANDING OF THE AALA LABELS

Among the 41 people who had read the label at a dealership:

- 86% thought it was "very easy" or "somewhat easy" to understand

However, only

- 35% correctly identified that Canadian parts were included in the numerical parts content score, whereas
- 23% mistakenly believed that Mexican parts are included in this score

CONSUMERS' KNOWLEDGE OF WHERE THEIR OWN VEHICLE WAS ASSEMBLED

- 94% of purchasers of Big 3 vehicles assembled in the U.S. or Canada correctly identified them as assembled in the U.S. or Canada (only 1% thought they were assembled overseas and 5% didn't know).
- 81% of purchasers of vehicles assembled overseas correctly identified them as assembled overseas, although 17% named the wrong country (11% thought they were assembled in the U.S. or Canada and 8% didn't know).
- but only 54% of purchasers of transplants correctly identified them as assembled in the U.S. or Canada (26% thought they were assembled overseas and 20% didn't know).

IMPORTANCE OF U.S./CANADIAN ASSEMBLY AND CONTENT TO CONSUMERS

- Survey participants rated from 0 to 100 the importance of various factors in selecting a new vehicle. The average new-vehicle customer considers "Made in the U.S./Canada" (43) less important than most of the other factors typically considered decisive in selecting a vehicle: e.g., reliability (93), safety (85), price (76), styling (70).
- Purchasers of Big 3 vehicles consider "Made in the U.S./Canada" (57) about as important as a vehicle's optional equipment (58), fuel economy (57) and cargo capacity (59), but less decisive than its reliability (93), drive quality (90), safety (84), size (76), price (72), or styling (72).
- Purchasers of transplant vehicles consider "Made in the U.S./Canada" (26) nearly the least important factor. Buyers of import vehicles consider it even less important (11).

THE STAUNCH "BUY AMERICAN" MARKET SEGMENT

- One-sixth of the survey participants considered "Made in the U.S./Canada" critically important (100 rating) for their new vehicle and, more generally, always try to "buy American" when they go to a store.
- This staunch "buy American" group had recently bought 96 percent Big 3 vehicles assembled in the United States, Canada or Mexico and 4 percent transplants assembled in the United States. None had bought an overseas import.

- Only 20 percent of this group knew of the existence of the AALA label, and only 9 percent had read it at a dealership. Thus, most of them bought a car assembled in North America without consulting the label or ascertaining the U.S./Canadian parts content.

POTENTIAL INFLUENCE OF THE LABELS

- In the survey, 56 percent of those who had not heard of the label said that now that it had been explained to them it would influence their future purchase of a vehicle.

DISSEMINATION OF THE LABELS

- At this time (2000), summaries of label information - e.g., tables that list the make-models in each vehicle class by U.S./Canadian parts content - are not available to consumers via the news media or the Internet.
- Only six of the 646 vehicle purchasers had the AALA label pointed out and explained to them by a salesperson. Only one said it was an important part of the sales presentation.
- Only 2 percent of dealers said their sales staff provides label information to the customers without being asked.
- Two of the 21 manufacturers produced brochures explaining the labels in 1994. Both discontinued the brochures, citing lack of consumer interest.
- 19 manufacturers said they had never encouraged or required dealers to make customers aware of the AALA label.
- 51 percent of dealers said that manufacturers provided them with no guidelines or materials for training their staff to explain the labels.

COST OF AALA TO THE MANUFACTURERS

- Manufacturers reported they had spent a cumulative total of \$37.9-47.5 million to implement the AALA through September 1998, including start-up and recurring costs.
- Since 60 million passenger vehicles were sold from October 1994 through September 1998 that amounts to \$0.63-0.79 per vehicle, including start-up. The cost of operating and maintaining the AALA, excluding start-up, is estimated to be \$0.10-0.30 per vehicle.

PERCENTAGE OF U.S./CANADIAN PARTS CONTENT IN NEW VEHICLES

- The value-weighted average U.S./Canadian parts content in new passenger vehicles registered in the United States, by model year, was as follows:

	1995	1998
All new vehicles	70	67.6
Big 3	89	84
Transplants	47	59
Imports from overseas	4	4

- Overall U.S./Canadian content dropped from 70 percent in model year 1995 to 67.6 percent in 1998.
- Big 3 vehicles, on the average, have substantially higher U.S./Canadian content than transplants (vehicles assembled and sold in North America by foreign-based companies), and transplants' content is much higher than imports' (vehicles assembled overseas by foreign-based companies).
- Big 3 vehicles are using fewer U.S./Canadian parts and more Mexican parts.
- Transplants have substantially increased U.S./Canadian parts and reduced overseas parts.
- Only one manufacturer stated that parts-content information labels influenced them to shift any operations from one country to another (and that company did not substantially increase U.S./Canadian content in 1995-98).

PERCENT OF NEW VEHICLES ASSEMBLED IN THE UNITED STATES OR CANADA

- The percent of new vehicles registered in the United States, by country of assembly, in model year 1994, just before the AALA and in model year 1998, was as follows:

	1994	1998
United States or Canada	84.8	83.2
Mexico	2.2	4.1
Overseas	13.0	12.7

- More vehicles sold in the United States are being assembled in Mexico, and proportionately fewer in the U.S./Canada or overseas.
- The percent shares of new-vehicle registrations in the United States for Big 3, transplants and imports in model year 1994, just before the AALA and in model year 1998, were:

Big 3	1994	1998
Assembled in U.S./Canada	71.0	67.0
Assembled in Mexico	1.8	2.8
Imports from overseas	<u>.5</u>	<u>.2</u>
	73.3	70.0

Foreign-based companies

Assembled in U.S./Canada	13.8	16.2
Assembled in Mexico	.4	1.3
Imports from overseas	<u>12.5</u>	<u>12.5</u>
	26.7	30.0

- The Big 3 lost some market share to foreign-based companies in model years 1994-98.
- "Transplants" assembled in North America accounted for the entire gain by the foreign-based companies.
- Big 3 and foreign-based companies both increased exports from Mexico to the U.S.
- "Captive imports" from overseas by the Big 3 captured a negligible share of the market in 1994-98.

CARS VS. TRUCKS

- **U.S./Canadian parts content** (value-weighted averages), by vehicle type:

	1995	1998
Passenger cars	64	60
Pickup trucks	83.3	83.1
Vans	85.5	80.5
Sport utility vehicles	70	69

- Pickup trucks and vans have higher U.S./Canadian content than cars and SUVs.
- Pickup trucks and SUVs came closest to maintaining their levels of U.S./Canadian content from 1995 to 1998.
- Market shares (percent of new vehicles registrations), by vehicle type and model year:

	1994	1998
Passenger cars	58.3	53.4
Pickup trucks	20.2	17.9
Vans	10.7	11.0
Sport utility vehicles	10.8	17.7

- The market shifted primarily from cars to SUVs
- Pickup trucks and vans had smaller changes in market share.
- Since cars and SUVs have similar U.S./Canadian content, the net impact of the shift from cars to SUVs on overall U.S./Canadian content was negligible.
- Country of assembly (value-weighted percent of new-vehicle registrations), by vehicle type and model year:

	1994	1998
Passenger cars		
U.S./Canada	75.5	73.9
Mexico	2.6	3.6
Overseas	21.9	22.5
Pickup trucks		
U.S./Canada	95.6	92.3
Mexico	1.0	7.3
Overseas	3.5	.4
Vans		
U.S./Canada	96.6	97.7
Mexico	-	-
Overseas	3.4	2.3
Sport utility vehicles		
U.S./Canada	84.6	78.5
Mexico	-	2.4
Overseas	15.4	19.1

- The overwhelming majority of pickup trucks and vans are assembled in North America. As a consequence, they also have more U.S./Canadian parts content than cars and SUVs.
- Imports from overseas are primarily cars and SUVs - hardly any pickup trucks by 1998.
- Exports of pickup trucks and SUVs from Mexico to the United States increased dramatically from 1994 to 1998.
- Tariffs on pickup trucks undoubtedly discouraged imports from overseas, whereas NAFTA stimulated exports from Mexico to the United States.

IMPORT DEPENDENCE IN MOTOR VEHICLES COMPARED TO OTHER INDUSTRIES

The Department of Commerce publishes annual statistics on U.S. production, consumption, exports and imports in various industries. Their statistics are not directly comparable to the numerical scores on the AALA labels (which include Canada, for example). They indicate that:

- Net import dependence in finished motor vehicles was 21.80 percent in 1992, before AALA and 23.11 percent in 1998, an increase of 1.31 percentage points.
- Net import dependence for 27 non-automotive consumer products (unaffected by AALA) was 7.34 percent in 1992 and 11.55 percent in 1998, an increase of 4.21 percentage points.

- In other words, the growth in import dependence for motor vehicles was somewhat less than the average for other industries unaffected by the AALA, the U.S.-Japan Agreement on Autos and Auto Parts, etc.

RELATIONSHIP BETWEEN U.S./CANADIAN PARTS CONTENT AND SALES

- Make-models that increased their U.S./Canadian parts content from one model year to the next experienced, on the average, a slight gain in sales.
- No claim of a cause-and-effect relationship is made here. The analysis merely describes what happened to sales of make-models that increased U.S./Canadian parts content.

CONCLUSIONS

- Most consumers are unaware of the existence of the AALA labels.
- A sizable proportion of those who know about the labels are influenced by the country-of assembly information, but few make use of the numerical parts-content score, or the engine and transmission information.
- Even those consumers that care deeply about U.S./Canadian parts content and assembly do not rely extensively on the AALA labels to pinpoint the make-models with high U.S./Canadian content. Instead, they simply buy Big 3 vehicles.
- The manufacturers and their dealers rarely use the AALA information as a selling point.
- More extensive dissemination, such as tables that conveniently list the make-models in each vehicle class by U.S./Canadian parts content, could increase consumers' awareness of the AALA data. It is unknown to what extent, if any, that might influence their purchasing decisions.
- Even consumers who have read the AALA label are often unaware that its numerical score includes Canadian parts but excludes Mexican parts.
- The introduction of AALA labels in model year 1995 was not followed by a resurgence of U.S./Canadian parts content or a massive shift from overseas imports to vehicles assembled in North America (or vice-versa).
- Nevertheless, data from the Department of Commerce suggest that the growth in import dependence for motor vehicles during 1992-98 was somewhat less than the average growth in import dependence for other consumer products unaffected by AALA, the U.S.-Japan Agreement on Autos and Auto Parts, etc.
- Transplant vehicles substantially increased their U.S./Canadian parts content during 1995-98 and a few make-models reached levels that rival some Big 3 vehicles. It is unknown to what extent, if any, the AALA labels contributed to the increase, but, intuitively, the U.S.-Japan Agreement and earlier actions seem to have been the main influences.
- Much of the public is still unaware that transplants are assembled in North America and contain significant proportions of U.S./Canadian parts.
- The Big 3 and some foreign-based manufacturers stepped up parts and assembly operations in Mexico after the inception of NAFTA. This has slightly reduced average U.S./Canadian parts content.
- Make-models that increased U.S./Canadian parts content did not suffer in the marketplace.

SYNOPSIS: IMPACT OF THE AALA IN 1995-98

The evaluation suggests that the AALA has had two definite and one doubtful impact. First, many of the consumers who read the AALA labels at the dealership find them convenient and influential for identifying in what country a vehicle was assembled. Second, Federal agencies use the parts content scores to monitor progress under the U.S.- Japan Agreement on Autos and Auto Parts. The doubtful impact is that the labels may have contributed to the increase of U.S./Canadian content in transplants during 1995-98: while this increase certainly took place, the role of the labels is doubtful - given that the U.S.-Japan Agreement on Autos and Auto Parts, and earlier measures, seem to have been quite a bit more influential. However, two current shortcomings of the AALA are: (1) Most consumers don't know the AALA labels exist. (2) Even those who know of the labels rarely use the numerical parts-content scores or the information about engines and transmissions.

POSSIBLE FUTURE ALTERNATIVES

- **Expand public information and education:** Explore potential strategies to disseminate the AALA information more extensively to the public in convenient formats - e.g., via the Internet, listing make-models within the various vehicle classes by percent U.S./Canadian content. If market research such as focus groups indicates a strategy(s) really promises to increase consumer awareness and ultimately affect purchase decisions, implement that strategy(s).
- **Leave the program unchanged:** The program would continue to supply a modest proportion of consumers with country-of-assembly information they find useful. If the numerical USCan content scores have had any influence on manufacturers to date, that influence could continue. However, it would be unreasonable to expect future increases in consumer awareness of the labels.
- **Modify AALA to require only country-of-assembly information (or repeal AALA):** Since country-of-assembly is currently the only widely used information on the AALA label, Congress may wish to delete the numerical parts-content score and the information on the engine and transmission. That would largely eliminate AALA's burden on manufacturers and suppliers. Or, Congress could simply repeal the AALA since country-of-assembly information can be obtained elsewhere. This alternative risks losing any impact the numerical score may be having on manufacturers today, or any potential impact if it were more widely known to consumers.

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TITLE 49—TRANSPORTATION

CHAPTER V--NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION, DEPARTMENT OF TRANSPORTATION

PART 583--AUTOMOBILE PARTS CONTENT LABELING--Table of Contents

Sec. 583.6 Procedure for determining U.S./Canadian parts content.

(a) Each manufacturer, except as specified in Sec. 583.5 (f) and (g), shall determine the percentage U.S./Canadian Parts Content for each carline on a model year basis. This determination shall be made before the beginning of each model year. Items of equipment produced at the final assembly point (but not as part of final assembly) are treated in the same manner as if they were supplied by an allied supplier. All value otherwise added at the final assembly point and beyond, including all final assembly costs, is excluded from the calculation of U.S./Canadian parts content. The country of origin of nuts, bolts, clips, screws, pins, braces, gasoline, oil, blackout, phosphate rinse, windshield washer fluid, fasteners, tire assembly fluid, rivets, adhesives, grommets, and wheel weights, used in final assembly of the vehicle, is considered to be the country where final assembly of the vehicle takes place.

(b) Determining the value of items of equipment.

(1) For items of equipment received at the final assembly point, the value is the price paid by the manufacturer for the equipment as delivered to the final assembly point.

(2) For items of equipment produced at the final assembly point (but not as part of final assembly), the value is the fair market price that a manufacturer of similar size and location would pay a supplier for such equipment.

(3) For items of equipment received at the factory or plant of an allied supplier, the value is the price paid by the allied supplier for the equipment as delivered to its factory or plant.

(c) Determining the U.S./Canadian percentage of the value of items of equipment.

(1) Equipment supplied by an outside supplier to a manufacturer or allied supplier is considered:

(i) 100 percent U.S./Canadian, if 70 percent or more of its value is added in the United States and/or Canada; and

(ii) To otherwise have the actual percent of its value added in the United States and/or Canada, rounded to the nearest five percent.

(2) The extent to which an item of equipment supplied by an allied supplier is considered U.S./Canadian is determined by dividing the value added in the United States and/or Canada by the total value of the equipment. The resulting number is multiplied by 100 to determine the percentage U.S./Canadian content of the equipment.

(3) In determining the value added in the United States and/or Canada of equipment supplied by an allied supplier, any equipment that is delivered to the allied supplier by an outside supplier and is incorporated into the allied supplier's equipment, is considered:

(i) 100 percent U.S./Canadian, if at least 70 percent of its value is added in the United States and/or Canada; and
(ii) To otherwise have the actual percent of its value added in the United States and/or Canada, rounded to the nearest five percent.

(4)(i) Value added in the United States and/or Canada by an allied supplier or outside supplier includes--

(A) The value added in the U.S. and/or Canada for materials used by the supplier, determined according to (4)(ii) for outside suppliers and

(4)(iii) for allied suppliers, plus,

(B) For passenger motor vehicle equipment assembled or produced in the U.S. or Canada, the value of the difference between the price paid by the manufacturer or allied supplier for the equipment, as delivered to its factory or plant, and the total value of the materials in the equipment.

(ii) Outside suppliers of passenger motor vehicle equipment will determine the value added in the U.S. and/or Canada for materials in the equipment as specified in paragraphs (A) and (B).

(A)(1) For any material used by the supplier which was produced or assembled in the U.S. or Canada, the supplier will subtract from the total value of the material any value that was not added in the U.S. and/or Canada. The determination of the value that was not added in the U.S. and/or Canada shall be a good faith estimate based on information that is available to the supplier, e.g., information in its records, information it can obtain from its suppliers, the supplier's knowledge of manufacturing processes, etc.

(2) The supplier shall consider the amount of value added and the location in which that value was added--

(i) At each earlier stage, counting from the time of receipt of a material by the supplier, back to and including the two closest stages each of which represented a substantial transformation into a new and different product with a different name, character and use.

(ii) The value of materials used to produce a product in the earliest of these two substantial transformation stages shall be treated as value added in the country in which that stage occurred.

(B) For any material used by the supplier which was imported into the United States or Canada from a third country, the value added in the United States and/or Canada is presumed to be zero. However, if documentation is available to the supplier which identifies value added in the United States and/or Canada for that material (determined according to the principles set forth in (A), such value added in the United States and/or Canada is counted.

(iii) Allied suppliers of passenger motor vehicle equipment shall determine the value that is added in the U.S. and/or Canada for materials in the equipment in accordance with (c)(3).

(iv) For the minor items listed in the Sec. 583.4 definition of "passenger motor vehicle equipment" as being excluded from that term, outside and allied suppliers may, to the extent that they incorporate such items into their equipment, treat the cost of the minor items as value added in the country of assembly.

(v) For passenger motor vehicle equipment which is imported into the territorial boundaries of the United States or Canada from a third country, the value added in the United States and/or Canada is presumed to be zero. However, if documentation is available to the supplier which identifies value added in the United States and/or Canada for that equipment (determined according to the principles set forth in the rest of (c)(4)), such value added in the United States and/or Canada is counted.

(vi) The payment of duty does not result in value added in the United States and/or Canada.

(5) Except as provided in paragraph (c)(6) of this section, if a manufacturer or allied supplier does not receive information from one or more of its suppliers concerning the U.S./Canadian content of particular equipment, the U.S./Canadian content of that equipment is considered zero. This provision does not affect the obligation of manufacturers and allied suppliers to request this information from their suppliers or the obligation of the suppliers to provide the information.

(6) If a manufacturer or allied supplier requests information in a timely manner from one or more of its outside suppliers concerning the U.S./Canadian content of particular equipment, but does not receive that information despite a good faith effort to obtain it, the manufacturer or allied supplier may make its own good faith value added determinations, subject to the following provisions:

(i) The manufacturer or allied supplier shall make the same value added determinations as would be made by the outside supplier;

(ii) The manufacturer or allied supplier shall consider the amount of value added and the location in which the value was added for all of the stages that the outside supplier would be required to consider;

(iii) The manufacturer or allied supplier may determine that particular value is added in the United States and/or Canada only if it has a good faith basis to make that determination;

(iv) A manufacturer and its allied suppliers may, on a combined basis, make value added determinations for no more than 10 percent, by value, of a carline's total parts content from outside suppliers;

(v) Value added determinations made by a manufacturer or allied supplier under this paragraph shall have the same effect as if they were made by the outside supplier;

(vi) This provision does not affect the obligation of outside suppliers to provide the requested information.

(d) Determination of the U.S./Canadian percentage of the total value of a carline's passenger motor vehicle equipment. The percentage of the value of a carline's passenger motor vehicle equipment that is U.S./ Canadian is determined by--

(1) Adding the total value of all of the equipment (regardless of country of origin) expected to be installed in that carline during the next model year;

(2) Dividing the value of the U.S./Canadian content of such equipment by the amount calculated in paragraph (d)(1) of this section, and

(3) Multiplying the resulting number by 100.

(e) Alternative calculation procedures. (1) A manufacturer may submit a petition to use calculation procedures based on representative or statistical sampling, as an alternative to the calculation procedures specified in this section to determine U.S./Canadian parts content and major sources of foreign parts content.

(2) Each petition must--

(i) Be submitted at least 120 days before the manufacturer would use the alternative procedure;

(ii) Be written in the English language;

(iii) Be submitted in three copies to: Administrator, National Highway Traffic Safety Administration, 400 Seventh Street SW., Washington, DC 20590;

(iv) State the full name and address of the manufacturer;

(v) Set forth in full the data, views and arguments of the manufacturer that would support granting the petition, including--

(A) the alternative procedure, and

(B) analysis demonstrating that the alternative procedure will produce substantially equivalent results to the procedure set forth in this section;

(vi) Specify and segregate any part of the information and data submitted in the petition that is requested to be withheld from public disclosure in accordance with part 512 of this chapter (the basic alternative procedure and basic supporting analysis must be provided as public information, but confidential business information may also be used in support of the petition).

(3) The NHTSA publishes in the Federal Register, affording opportunity for comment, a notice of each petition containing the information required by this part. A copy of the petition is placed in the public docket. However, if NHTSA finds that a petition does not contain the information required by this part, it so informs the petitioner, pointing out the areas of insufficiency and stating that the petition will not receive further consideration until the required information is submitted.

(4) If the Administrator determines that the petition does not contain adequate justification, he or she denies it and notifies the petitioner in writing, explaining the reasons for the denial. A copy of the letter is placed in the public docket.

(5) If the Administrator determines that the petition contains adequate justification, he or she grants it, and notifies the petitioner in writing. A copy of the letter is placed in the public docket.

(6) The Administrator may attach such conditions as he or she deems appropriate to a grant of a petition, which the manufacturer must follow in order to use the alternative procedure.

[60 FR 47894, Sept. 15, 1995; as amended at 61 FR 46390, Sept. 3, 1996;
62 FR 33761, June 23, 1997; 64 FR 40780, July 28, 1999]