



Statement of the U.S. Chamber of Commerce

**ON: "Section 232 National Security Investigation of
Imports of Automobiles, Including Cars, SUVs,
Vans and Light Trucks, and Automotive Parts,"
Docket Number DOC 2018-11708**

TO: U.S. Department of Commerce

BY: U.S. Chamber of Commerce

DATE: June 28, 2018

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The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. In addition to 117 American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

The U.S. Chamber of Commerce appreciates the opportunity to present the following comments to the U.S. Department of Commerce on the “Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts” pursuant to 83 FR 24735, docket number DOC-2018-0002 (May 30, 2018). The Chamber is the world’s largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and it is dedicated to promoting, protecting, and defending America’s free enterprise system.

According to the related Federal Register notice, the administration will use these comments to “determine the effects on the national security of imports of automobiles, including cars, SUVs, vans and light trucks, and automotive parts.... If the Secretary finds that automobiles and/or automotive parts are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security, the Secretary shall recommend actions and steps that should be taken to adjust automobile and/or automotive parts imports so that they will not threaten to impair the national security.” Multiple press reports cite White House officials indicating that the imposition of a 25% tariff on all imports of automobiles and automotive parts is under serious consideration.

Tariffs Would Mark a U-Turn for a Prospering Sector

The U.S. Chamber strongly opposes the imposition of tariffs on auto imports in the name of national security under Section 232 of the Trade Expansion Act of 1962. If this proposal is carried out, it would deal a staggering blow to the very industry it purports to protect and risk igniting a global trade war.

In fact, the U.S. auto industry is prospering, and the vast majority of industry stakeholders do not support these proposed tariffs. The Chamber notes that other associations representing a variety of firms of all sizes and different parts of the auto supply chain—including the American Automotive Policy Council, the Alliance of Automobile Manufacturers, the Association of Global Automakers, and the Motor & Equipment Manufacturers Association—do not support the imposition of tariffs on autos and auto parts imports.

Imposing a 25% tariff on autos and auto parts would be extremely damaging to the U.S. economy. According to a study by the Peterson Institute for International Economics, this action and the ensuing all-but-certain retaliation by foreign governments would lead to the loss of more than 600,000 American jobs. It would also raise the price of a passenger vehicle by several thousand dollars.

The use of this statute, with its specific focus on national security, is entirely inappropriate to the Administration’s purposes. U.S. officials have already signaled their true objective is to leverage this tariff threat in trade negotiations with Mexico, Canada, Japan, the European Union, and South Korea. These countries provide nearly all U.S. auto imports and are among America’s closest allies. Neither they nor these imports endanger U.S. national security in any way.

America's Auto Industry is a Strength—Not a Problem to be Fixed

As noted, America's auto industry is prospering. Automakers and auto parts suppliers constitute the largest U.S. manufacturing sector, and it has enjoyed robust growth over recent years in part due to expanded trade opportunities. These opportunities have been enhanced by trade agreements such as the North American Free Trade Agreement (NAFTA).

U.S. auto production has doubled over the past decade, and the sector employs nearly 8 million Americans—nearly 50% more American workers than it employed in 2011. The industry is also America's largest exporter of manufactured goods. These benefits are shared across every state in the Union: As the Alliance of Automobile Manufacturers avows: "Every State is an Auto State."

International trade—especially but not exclusively within North America—has strengthened the U.S. auto sector. As business leaders in Canada, Mexico, and the United States have pointed out with growing frequency, North Americans increasingly "make things together," employing supply chains that cross national borders. The reduction in production costs made possible by these supply chains has powered job creation and funded payrolls for firms from family-owned auto parts manufacturers to the global companies that underwrite some of the largest R&D budgets in the United States.

This approach leads to efficiencies that have proven vital to the global competitiveness of North American industry. In the highly integrated auto sector, it is common for autos to cross the U.S.-Canada and U.S.-Mexico borders half a dozen times as they are assembled. In turn, worldwide exports of U.S.-built vehicles have more than doubled since NAFTA entered into force to nearly two million vehicles today. A growing share of vehicles is headed to Asia, the Middle East, and other locations, underscoring the growing attractiveness of the United States as an export platform.

Auto Imports Do Not Undermine National Security

Even without the backdrop of a prospering U.S. auto industry, no credible argument has been advanced that imports of autos and auto parts put at risk America's national security. On the contrary, access to imports has enhanced innovation in the industry, expanded consumer choice, and allowed firms to remain globally competitive by sourcing specific inputs from abroad.

A memo authored by Secretary of Defense James Mattis during the debate over Sec. 232 tariffs on imported steel and aluminum casts light on the intersection of industry and national security. In the memo, made public in February 2018, Mattis narrowed the scope of import-related national security concerns to "the systematic use of unfair trade practices to intentionally erode our innovation and manufacturing industrial base." In the case of the U.S. auto industry, no allegation of unfair trade has been made in the present context, which in any event would appropriately be addressed by anti-dumping or countervailing duty proceedings.

Far from “erod[ing] our innovation and manufacturing industrial base,” international trade and investment has strengthened the U.S. auto sector and made it more globally competitive. According to *Here for America*, a coalition representing international automakers, these foreign-headquartered firms have invested more than \$75 billion into U.S. operations, with manufacturing plants in 14 states and R&D facilities in 16 states. In doing so, they have generated 1.29 million direct and indirect U.S. jobs with a direct employee payroll of \$11.3 billion in 2016.¹ This is the opposite of “eroding our innovation and manufacturing industrial base.”

Mattis further noted that “U.S. military requirements for steel and aluminum each only represent about three percent of U.S. production” and concluded that imports have not eroded “the ability of DoD programs to acquire the steel or aluminum necessary to meet national defense requirements.” Given the robust health, vast size, and technological sophistication of the U.S. auto industry, even the most generous assumptions with regard to national security would find U.S. industry extremely well situated to meet said demands.

Finally, Mattis wrote that he was “concerned about the negative impact on our key allies” of tariffs on steel and aluminum. In the case of autos, the vast majority of imports come from five countries—Mexico, Canada, Japan, Germany, and South Korea—all of which are close partners and allies of the United States. These allies are understandably offended at the notion that their fairly traded goods—and investments in the U.S. economy—could represent a threat to U.S. national security.

Administration comments to the press have made clear that the intention of the tariff threat is to create leverage in trade negotiations such as those relating to NAFTA and ongoing discussions with Japan and the EU. This is an inappropriate and unlawful use of this statute. It is the Chamber’s view that the executive’s Section 232 authorities should not be abused in this way, and doing so only encourages other nations to raise their own trade barriers against U.S. exports in the name of national security.

Tariffs Would Inflict Severe Harm on U.S. Auto Sector and U.S. Economy

The widely reported news that the Administration is considering imposing a 25% tariff on all auto and auto parts imports is concerning because such an action would inflict severe harm on the nation’s largest manufacturing sector, from parts manufacturers and OEMs to dealers. It would slash production and lead to lost jobs. The impact would be felt by U.S.-headquartered firms, foreign-headquartered firms invested in the United States, and small and midsized family-owned parts manufacturers.

Imposing a 25% tariff on autos and auto parts would be extremely damaging to the U.S. economy. According to a study by the Peterson Institute for International Economics, such a tariff would compel U.S. auto and auto parts industries to eliminate 195,000 American jobs as U.S. production declined by approximately 1.5%. In the all-but-certain event foreign

¹ Here for America, *International Automakers and Dealers in America* (2017): <http://www.hereforamerica.com/wp-content/uploads/2017/05/2017-Economic-Impact-Report.pdf>.

governments retaliate, U.S. auto production would contract by 4%, and 624,000 Americans would lose their jobs. The impact on exports would exceed that on imports.²

Tariffs would also have a substantial impact on consumers, raising the price of a passenger vehicle by several thousand dollars. A Trade Partnership Worldwide study estimates tariffs will add roughly \$6,400 to the price of an imported \$30,000 vehicle.³ Because all autos sold in the United States are manufactured with substantial amounts of foreign-made content, significant price hikes for all models would be expected. As a result, consumers would purchase fewer cars, reducing production as well as jobs with dealers and contributing to downward pressure across the U.S. economy.

For an initiative proposed in the name of national security—and taking into account Secretary Ross’s allusions to economic security—auto tariffs would be extraordinarily counterproductive. There is no optimal tariff to be imposed on U.S. auto imports: The damage is commensurate with the import tax imposed. Production declines and job loss on any scale, let alone these imposing numbers, would surely undermine the U.S. economy and by extension our national security.

In addition, there is a danger that the proposed tariffs on autos and auto parts could be applied even to tariff lines for products not considered part of the auto industry (e.g., any product with an engine). Applying these damaging tariffs to imports used by equipment manufacturers (i.e., firms outside the auto sector) would add to the damage.

Industry’s Goal: Global Competitiveness

The performance of the U.S. economy over the past year has been impressive. Unemployment is at its lowest level in decades, and output has expanded briskly. These results are more than purely cyclical: Last year’s historic tax and regulatory reforms are paying dividends and are likely to do so for years to come.

For the auto industry, these reforms and other changes have made the United States an increasingly attractive place to invest, hire, and manufacture. Energy costs are substantially lower than in other world regions. The U.S. workforce is highly competitive by any measure.

However, the industry does face challenges. The Administration’s recent tariffs on imports of steel and aluminum have driven up prices for these key inputs. Key U.S. steel price benchmarks have risen nearly 40% this year and are now almost 50% above equivalent benchmarks in Europe, according to S&P Global Platts data. The Midwest Premium price for aluminum has risen more than 130% since the beginning of the year. These substantial price

² Sherman Robinson, Karen Thierfelder, Jeffrey J. Schott, Euijin Jung, Zhiyao (Lucy) Lu and Melina Kolb, “Trump’s Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus,” Peterson Institute for International Economics, May 31, 2018: https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and#_ftn1.

³ Joseph Francois, Laura M. Baughman, and Dan Anthony, “An Accident Waiting to Happen: The Estimated Impact of Tariffs on Motor Vehicles and Parts.” Trade Partnership Worldwide, LLC. May 29, 2018: <http://tradepartnership.com/reports/an-accident-waiting-to-happen-the-estimated-impacts-of-tariffs-on-motor-vehicles-and-parts/>.

hikes have dealt a significant blow to the global competitiveness of auto and auto parts manufacturing firms in the United States.

The absence of a market-opening trade agenda also spells long-term trouble for auto and auto parts manufacturing firms in the United States. Canada, the EU, Korea, and Mexico are all pursuing new trade agreements to give their own auto sectors improved access to foreign customers. By contrast, the U.S. list of trade agreements—stalled at 20 countries for several years—is not expanding. Meanwhile, the Administration’s heterodox proposals in the NAFTA negotiations have made potential trade agreement partners wary of entering into bilateral talks with Washington.

Standards are another important factor. The EU has worked diligently to convince other governments to accept vehicles certified to the United Nations Economic Commission for Europe (UNECE) regulatory standards. U.S. efforts to achieve similarly broad acceptance of U.S. Federal Motor Vehicle Safety Standards (FMVSS) have achieved some success but not on the same scale.

To make the U.S. auto sector more competitive, tariffs would represent a huge step in the wrong direction. Rather, to build on the impressive strengths of the United States as a platform for auto manufacturing—to serve the domestic market and for export—the Administration should abandon its tariff threat and refocus its attention elsewhere. Among other priorities, the Administration should:

- 1) Roll back the steel and aluminum tariffs it has imposed on key partners and allies;
- 2) Negotiate new market-opening trade agreements with other countries, and do so without the heterodox proposals introduced in the NAFTA negotiations that have drawn broad opposition from industry, Congress, and the governments of Canada and Mexico; and
- 3) Dedicate greater attention and resources to achieving acceptance of U.S. Federal Motor Vehicle Safety Standards (FMVSS) by other governments, especially in key export markets.

On behalf of our member companies—businesses of every size, sector, and state—we welcome the opportunity to continue to provide input and counsel on these issues.

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