



WRITTEN SUBMISSION OF THE NATIONAL FOREIGN TRADE COUNCIL

**Comments Regarding the Section 232
National Security Investigation of Imports of
Automobiles, Including Cars, SUVs, Vans and Light Trucks,
and Automotive Parts
Docket No. DOC-2018-0002
June 29, 2018**

Introduction

These comments are submitted by the National Foreign Trade Council (“NFTC”) in connection with the *Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts* (the “Auto Investigation”). On May 23, 2018, the Secretary of Commerce initiated the Auto Investigation under Section 232 of the Trade Expansion Act of 1962, as amended, to determine the effects on U.S. national security of imports of automobiles, including cars, SUVs, vans and light trucks, and automotive parts. Pursuant to a Federal Register notice, published on May 30, 2018 (the “FR Notice”), interested persons have been asked to submit comments in connection with the investigation.

NFTC is dedicated to making America more competitive in the global economy by ensuring the adoption of forward-looking tax and trade policies, by strengthening global rules and by opening foreign markets to U.S. products and services. Our strong support for these objectives, and our belief that their fulfillment is essential to our members’ success in a globalized economy, have been unwavering for decades. We therefore believe that it is critical to provide policymakers in the Administration with our clear views about the role trade and tax policies play in unleashing a new era of U.S. competitiveness.

NFTC represents more than 200 companies and our membership spans the breadth of the national economy. It includes sectors such as auto manufacturing, energy products, capital goods, transportation, consumer goods, technology, healthcare products, services, e-commerce and retailing. Our companies account for more than \$3 trillion in total sales worldwide, employ over five million Americans and produce a huge share of our nation's total exports. Our stake in ensuring a healthy national economy and promoting our global leadership is enormous.

NFTC's membership includes some of America's largest manufacturers of autos (defined to include automobiles, SUVs, vans and light trucks), heavy equipment and industrial goods. We are therefore concerned about the effect that Section 232 tariffs on autos and auto parts will have on those companies involved in the automotive sector as well as companies that use auto parts to produce other types of machinery. Historically, the auto and auto parts industries have formed a large part of American manufacturing capacity with operations located in 14 states. These manufacturing jobs are supported by a large network of parts suppliers and auto dealers who directly employ of Americans in all 50 states. The vast majority of the domestic and international nameplate dealerships are privately-owned small businesses and this strong auto dealer presence provides an important impact – as employers, supporters of charitable causes and sources of tax revenue – in virtually every city and town in the United States. Overall, more than eight million American workers and their families depend on autos and these related businesses for their livelihoods. For the reasons discussed below, we urge the Department of Commerce to refrain from harming this industry and the overall U.S. economy by imposing tariffs or other import restrictions on imported automobiles and auto parts.

Analysis

At the outset, we want to emphasize that NFTC members recognize the importance of ensuring that global trade in autos and auto parts is fair, and that U.S. trading partners play by the rules. To the extent that our trading partners are engaged in dumping or subsidization of autos and auto parts to the United States, those imports should be subjected to trade remedies under the U.S. statutes governing antidumping and countervailing duty investigations. We are, however, extremely concerned about the notion of seeking to remedy unfair trade through an overly broad definition of “national security” and the

use of sweeping trade restrictions under Section 232. We do not believe that this is the proper role of a “national security” related remedy, which should be more narrowly focused on two considerations: (a) what specific national security needs are not being met; and (b) whether a targeted remedy that is not unduly disruptive to the rest of our national economy can ensure essential supply to our defense sector. Recent statements made by key Administration officials in connection with initiation of the Auto Investigation suggest that the Administration’s decision to initiate the Auto Investigation was not in fact motivated by a genuine concern about national security, as that term is defined in the Trade Expansion Act of 1962, but rather as a means of creating negotiating leverage with the countries who are the largest exporters of autos and auto parts into the U.S. market. This use of Section 232 is not consistent with Congressional intent and represents a misuse of Section 232 by the Executive Branch.

We urge the Administration to consider the impact that significant restrictions on auto and automotive parts imports will have on our companies’ domestic manufacturing and sales as well as on the broader U.S. economy. The economic impact which Section 232 tariffs would have on the U.S. auto industry is clear. Although the vast majority of parts used by U.S. producers are sourced domestically, all U.S.-manufactured vehicles incorporate some imported parts. Tariffs on imported automotive parts will lead to increased production costs for domestic auto manufacturers, which will in turn be passed on to consumers. Increased vehicle costs will lead to lower vehicles sales and ultimately to fewer jobs in the auto sector – for vehicle manufacturing, for parts manufacturing, for dealer sales and for servicing of vehicles.

Recent economic analyses of the likely effect of Section 232 tariffs on the sector support this point, showing how a Section 232 tariff on autos and auto imports would have “serious and negative impacts on the U.S. economy overall,” affecting not only manufacturing jobs but also hundreds of thousands of workers in services sectors that depend on these manufacturing jobs.¹ Another analysis shows that a 25 percent tariff on imported autos and auto parts would result in a 1.5 percent decline in U.S. auto production and cause 195,000 U.S. workers to lose their jobs in the near term.² This analysis further reveals that, assuming likely retaliation by other countries affected by the Section 232 tariffs, American job losses would likely increase to 624,000 and this impact would be felt throughout the United States, given the national footprint of the auto industry.³

1 See Francois, Baughman and Anthony. “An Accident Waiting to Happen: The Estimated Impact of Tariffs on Motor Vehicles and Parts,” Trade Partnership Worldwide LLC (May 29, 2018).

2 See Robinson, et al. “Trump’s Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus,” Petersen Institute for International Economics (May 31, 2018) (“PIIE Report”).

3 See PIIE Report.

A number of trade associations representing the auto and automotive parts industries have filed useful comments regarding the likely impact of Section 232 tariffs and we urge you to review these submissions carefully. See, e.g., Written Submission of American Automotive Policy Council (dated June 29, 2018); Written Submission of the Alliance of Automobile Manufacturers (dated June 27, 2018); Written Submission of Here for America (dated June 27, 2018). These submissions, along with others being filed by trade associations representing all parts of the auto and auto parts value chain, make clear that the U.S. auto manufacturers, parts manufacturers and dealers did not request initiation of the Auto Investigation and are genuinely concerned about the harm that this investigation may cause to the entire U.S. auto and auto parts industry. They point out that all vehicles manufactured in the United States include imported auto parts and this means that Section 232 auto parts tariffs will affect the price of all domestically-produced vehicles. They argue that Section 232 tariffs on autos and auto parts will only serve to undermine the enormous economic contribution that the U.S. automotive sector makes to the U.S. economy and will curtail the sector's future growth. Further, they note that the impact of the Section 232 steel and aluminum tariffs is already affecting the U.S. manufacturers of autos and auto parts so the effects of Section 232 auto and auto parts tariffs would be cumulative because the higher domestic prices for steel and aluminum resulting from those tariffs are already being absorbed by the industry. The submissions also underscore how the introduction of trade barriers at the U.S. border will create enormous business uncertainty for manufacturing companies who, by nature of their production schedules, must make commodity-sourcing decisions far in advance of their manufacturing timelines. Further, broad-based remedial measures will not be able to take account of situations where auto parts are not made in the United States, are in short supply in the United States or cannot be produced within a production-driven time frames of U.S. manufacturers.⁴

Trade-restrictive measures affecting auto parts imports will also affect the ability of U.S manufacturers who use imported automotive parts as an input to export U.S.-made products. Imported automotive parts are incorporated into U.S. manufacture of automobiles and other heavy machinery that are then exported

⁴ We note that the Department of Commerce has had a difficult time managing the exclusion process that it created for exclusion requests filed in response to the Section 232 steel and aluminum tariffs. The FR Notice did not specify whether an exclusion process would be provided if Section 232 auto and auto parts tariffs are introduced. The imposition of import restrictions without the possibility of seeking an exclusion from the determination, such as for products that are unavailable in the quantities or with the product specifications required by U.S. end-users, would have immediate and damaging impacts and would put U.S. manufacturing jobs at risk.

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to foreign markets where they compete with foreign-manufactured products. In 2017, exports of autos and auto parts amounting to over \$99 billion were exported from the U.S. In fact, the U.S. automotive industry is the single largest U.S. export sector, with nearly one in five car and light trucks made in the United States sold for export. If tariffs or quotas are used to raise the costs of imported automotive parts, and U.S.-based manufacturers are compelled to pay more for these components than their foreign competitors, the U.S. companies will be at a competitive disadvantage in export markets. As a result, these companies will face fewer export sales or be priced out of the global markets entirely, potentially leading to the relocation of some U.S. production overseas. This is surely not the result that a Section 232 investigation aims to achieve.

In addition, introduction of new remedies against U.S. trading partners who have not been found to be engaged in dumping or subsidization runs the risk of inviting retaliation from those trading partners. In 2017, 98 percent of our auto imports came from five of our allies – Canada, Mexico, South Korea, Japan and the European Union. These countries represent strong national security and trading partners of the United States. These countries have not engaged in unfair trade practices and should not find their exports burdened by additional tariffs or other trade-restrictive measures when they have, in fact, been playing by the rules. As has been seen recently in the case of the Section 232 steel and aluminum tariffs, trade restrictions imposed on imports to our market will create an incentive for similar actions to be taken by our trading partners in retaliation. If the United States tries to justify a broad-based tariff or quota for all autos and automotive parts imports on the grounds of “national security,” it will embolden other countries to use the same justification to raise restrictions on our auto exports, as well as on other categories of products – such as capital goods, civil aircraft, technology products or pharmaceuticals. Foreign retaliation will almost certainly create a new wave of non-tariff protectionism, which could harm a large number of America’s most competitive sectors in ways we do not anticipate. The Administration should carefully weigh the adverse effects of signaling to the world that it is appropriate to use broad, generalized protection for any particular sector by justifying its actions on national security grounds.

Conclusion

In conclusion, we want to summarize our main concerns with the potential imposition of trade restrictions on a broad range of autos and automotive products under Section 232:

- First, national security restrictions should be imposed only selectively on a limited range of products where a critical military preparedness concern has been identified by the Administration, in consultation with Congress;
- Second, the use of broad-based Section 232 remedies to severely limit the imports automotive parts imports will affect hundreds of U.S. manufacturers in the automotive manufacturing supply chain as well as U.S. manufacturers who use automotive parts in manufacturing that does not result in the production of a vehicle but in the fabrication of other machinery. Import restrictions create significant disruptions to U.S. manufacturer's production schedules and constrain their ability to meet their own customers' demands for products. Trade-restrictive measures of this type will significantly affect the cost structure of the manufacturers and exert downward pressure on output, production and employment. Higher price for automotive parts will also undermine the ability of U.S. manufacturers to produce for export and to compete internationally;
- Third, sweeping restrictions on auto and automotive parts imports that are justified or rationalized on spurious national security grounds will risk reciprocal actions by our trading partners in other sectors, including actions based on similarly broad and unjustified national security grounds, which would have major impacts on our most competitive export sectors.

The U.S. auto and auto parts industry is globally competitive and has enjoyed a tremendous resurgence, in large part because of our government's efforts to open global markets and to create a strong, integrated North American production system to enable us to compete with foreign auto producers. We have attracted massive new investment in auto production in many states and communities around the country. Trade is exceedingly important to the auto sector's future, as is ensuring that our trading partners observe the rule of law and further open their markets to U.S. exports. We want to continue working with our own government, and others around the world, to reduce trade barriers, strengthen global trade rules and avoid trade-distorting standards or other non-tariff practices. We urge the Administration to avoid creating a dangerous new paradigm for global auto trade, one that will ultimately cause more harm than good, thereby

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undermining our hard-earned success as a world leader in auto production. Instead, we ask that you work with industry in identifying markets and barriers abroad in this sector that should be the target of our negotiating efforts and in establishing a more effective negotiating strategy to address those barriers.

Thank you for the opportunity to present our comments. If you have any questions regarding our comments, please contact Rufus Yerxa, President of the NFTC, at (202) 887-0278.