AUTO ALLIANCE
DRIVING INNOVATION®

803 7th Street N.W., Suite 300 | Washington, DC 20001
202.326.5500 | www.autoalliance.org

September 26, 2018

The Honorable Orrin G. Hatch
Chairman, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Chairman Hatch and Ranking Member Wyden,

On behalf of the Alliance of Automobile Manufacturers, I would like to thank you for holding a hearing on the potentially staggering implications of the Administration's on-going 232 investigation concerning automobiles and auto parts. The Alliance is a trade association representing 12 automakers based both domestically and internationally. Combined, Alliance members represent approximately 70% of new car sales in the United States.

The automotive sector continues to be one of the most powerful engines driving our economy. Automakers based in Detroit and around the world operate 45 assembly plants in fourteen states, relying on suppliers from virtually every state in the nation. Our industry employs more than 7 million people generating $500 billion annually in paychecks, contributes 3.5% to our total GDP, and invests over $20 billion annually in research and development here in the United States.

Despite the powerful economic impact our industry has on the U.S. economy, we are facing an unprecedented 232 investigation by the Commerce Department that may lead to the imposition of auto tariffs as high as 25%. These tariffs would be applied under the unsubstantiated premise that autos threaten national security. The strong outpouring of opposition during the 232 public hearing reflects a broadly held view that tariffs would both harm consumers and jeopardize America's leadership in automotive innovation.

The numbers are hard to ignore. According to a recent Center for Automotive Research analysis, a 25% tariff would drive up costs as much as $7,000 per imported vehicle and more than $2,000 on a domestically built car. The financial burden will not just be felt by new car buyers. By forcing families out of the new car market, tariffs will drive up demand for used cars, resulting in higher prices. Finally, tariffs on imported auto parts will jack up repair and maintenance costs. Put simply, the auto tariffs represent a new and massive tax increase on consumers no matter what they drive. And then, predictably, retaliation will add new costs outside of the auto sector and undermine the strength of our economy

Higher prices from tariffs will lead to a destructive spiral. As costs rise, demand drops. Some say 2 million units are at risk. And that means fewer Americans will be working to produce, sell, and service these vehicles. The Peterson Institute found that if these tariffs were implemented American job losses would be about 200,000 – and this number could rise above 600,000 with the retaliatory tariffs that will follow the implementation. Other studies indicate the job losses will be even more severe. Attached is Alliance testimony that details potential state-by-state impact.

Rather than harming U.S. consumers and creating a system where U.S.-based plants see job losses, we continue to encourage the Administration to strengthen the U.S. economy by modernizing NAFTA, concluding a U.S.-EU trade pact, and expanding market access for U.S. auto exports. We look forward to working with both the Administration and Congress to strengthen our trade agreements and grow American jobs.

Sincerely,

Mitch Bainwol
President & CEO
Alliance of Automobile Manufacturers

Enclosure

Comments of the Alliance of Automobile Manufacturers on the Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts

June 27, 2018

Introduction

On behalf of the 12 members of the Alliance of Automobile Manufacturers (Alliance), we appreciate the opportunity to provide comments in response to the Department of Commerce's request for public comments 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 Alliance is the leading advocacy group for the auto industry, representing over 70 percent of new car and light-duty truck sales in the United States.

Economic Impact of U.S. Auto Industry

By creating jobs, fueling innovation, building exports, and advancing mobility, automakers are driving the American economy forward. Historically, the auto industry has contributed between 3 - 3.5 percent to America's total gross domestic product. Nationwide, more than seven million workers and their families depend on the auto industry. Each year, the industry generates $500 billion in paychecks, and accounts for $205 billion in federal and state tax revenues across the country. No other single industry is linked to so much of U.S. manufacturing or generates so much retail business and employment.

Automakers have an established footprint throughout the country (see attached *Investing in America* report). In total, 14 domestic and international automakers currently operate 45 assembly plants across 14 states, with a heavy presence in the South and the Midwest. In the past 25 years, 15 new manufacturing plants have been launched in the U.S and more are on the way. These 15 new manufacturing plants – and automakers' ongoing substantial, multi-billiondollar reinvestment in existing plants – have resulted in the creation of an additional 50,000 direct and 350,000 indirect auto jobs throughout the United States.

Automakers support an expansive network of thousands of suppliers and dealers throughout the country. These suppliers and dealers directly employ millions of Americans and play vital roles in local communities throughout all 50 states. According to the Motor and Equipment Manufacturers Association, in the supplier community alone, motor vehicle parts manufacturing jobs have increased nearly 19 percent since 2012.[1] And, according to the National Automobile Dealers Association, there are roughly 17,000 auto dealerships nationwide generating $995 billion in annual sales –18 percent of total retail sales in the United States.[2] More than 90 percent of these domestic and international nameplate dealerships are privately-owned small businesses and have a powerful impact on their local communities– serving not only as employers but significant sources of charitable giving and tax revenue in the cities and towns where they are located.[3]

The demonstrated path to increasing direct and indirect auto jobs is through a growing economy. The example of the Great Recession is instructive. The economic collapse of 2007-2008 left a deep imprint on the auto industry and our nation as a whole. Auto sales plummeted from 16.2 million units in 2007 to just 10.4 million units in 2009. As a result, production declined sharply and job losses followed. Auto sector employment dropped 34 percent in just 18 months, shedding more than 323,000 jobs. This period demonstrated the cascading effects that a dramatic drop in auto sales can quickly have on the industry and the overall economy.

In its recent *Global Economic Prospects* report, the World Bank warned that tariffs would have severe consequences for global trade and could result in an economic decline similar to that

[1] "The Economic Impact of the Motor Vehicle Parts Manufacturing Industry on the United States." IHS Markit for the Motor & Equipment Manufacturers Association. August 2016. Accessed via: https://www.mema.org/sites/default/files/resource/2016%20MEMA%20Economic%20Impact%20Final%20Report.pdf

[2] "NADA Data 2016: Annual Financial Profile of America's Franchised New-Car Dealerships" Accessed via: https://www.nada.org/2016NADAdata/

[3] Id.

experienced in the Great Recession, or worse if tariffs exceed the maximum level allowed by the World Trade Organization. [4]

The rebound the auto sector has witnessed since the financial collapse has been the result of steady economic growth and the innovation of manufacturers and their supplier partners. In addition, with recent tax and regulatory changes advanced by the Trump Administration and Congress, which are likely to stimulate further economic growth, it would be a mistake to introduce new variables that might upset a trajectory set to benefit workers all over the country.

Economic Security is National Security

While it is obviously the case that a healthy and growing economy is necessary to sustain national security commitments, it is no less the case that certain policy decisions made in the name of national security may actually undermine the economic growth on which the nation's security depends. It may seem attractive in this instance to pursue economic goals under the umbrella of national security considerations; however, doing so could very well set a dangerous precedent that other nations could use to protect their local market from foreign competition. Those countermeasures will result in both short- and long-term negative consequences for U.S. exports, and the workers whose jobs depend upon them.

In other words, we believe the resulting impact of tariffs on imported vehicles and vehicle components will ultimately harm U.S. economic security and weaken our national security. The potential negative ramifications of such tariffs to the nation's auto industry, consumers, and overall U.S. economy are real.

Import Tariffs Will Have a Negative Impact on America's Automobile Industry – One of the Most Powerful Engines Driving the U.S. Economy

There is no question that tariffs will have an adverse impact on consumer prices. Some dismiss these concerns in the name of protecting U.S. jobs. However, a distinction between these two concerns is artificial. The calculus is simple – tariffs will lead to increased producer costs,

---

[4] World Bank. 2018. *Global Economic Prospects, June 2018: The Turning of the Tide?* Washington, DC: World Bank. doi: 10.1596/978-1-4648-1257-6. License: Creative Commons Attribution CC BY 3.0 IGO.

increased producer costs will lead to increased vehicle costs, increased vehicle costs will lead to fewer sales and less tax receipts, fewer sales will lead to fewer jobs, and those fewer jobs will significantly impact many communities and families across the country.

Vehicle tariffs will unnecessarily increase costs for consumers and undermine consumer affordability. A recent Trade Partnership Worldwide analysis estimates tariffs will add roughly $6,400 to the price of an imported $30,000 vehicle.[5] This price hike will result in a decline in auto production, jobs, fleet turnover, and vehicle exports.

An analysis of U.S. Department of Commerce data shows that consumers of imported vehicles will be faced with an average price increase of $5,800 as a result of a 25 percent import tariff.[6] Nationwide, if a 25 percent tariff was to be imposed based on 2017 sales, American consumers would be hit with a tax of nearly $45 billion.

Sales in 2017 Of Vehicles Assembled in U.S. And Abroad (National)[7][8]						
Sales Of Vehicles Assembled In U.S.	**Assembled In U.S. (%)**	**Sales Of Vehicles Assembled Abroad**	**Assembled Abroad (%)**	**Total Sales**	**Average Tariff Costs**	**Proposed Tariff Costs**
9,452,347	55.16	7,682,386	44.83	17,134,733	$5,800	$44,557,838,800

Individual state impact sheets accompany this submission and highlight the consumer impact to be felt throughout all 50 states should a 25 percent tariff be imposed on all imported automobiles. These calculations do not take into account the cost increase of vehicles produced in the U.S. or the impact on used car vehicle prices.

---

[5] Francois, J., Baughman, L., and Anthony, D. "An Accident Waiting to Happen: The Estimated Impact of Tariffs on Motor Vehicles and Parts." Trade Partnership Worldwide, LLC. May 29, 2018.
[6] United States Department of Commerce, Bureau of the Census, Foreign Trade Division TPIS Database: USHS IMPORTS, Revised Statistics for 1989-2016. Accessed via: https://www.trade.gov/td/otm/autostats.asp
[7] Figures compiled by Auto Alliance with data provided by IHS Markit and Ward's Automotive represent new vehicle registrations between 1/1/17 – 12/31/17 and value of import vehicle calculated using Department of Commerce import data (accessed via: https://www.trade.gov/td/otm/autostats.asp).
[8] This does not take into account the 1,981,873 vehicles that were manufactured in the U.S. for export in 2017.

Tariffs on imported vehicle components will increase production costs for both domestic and international automakers here in the U.S. These costs will translate into increased vehicle prices for consumers and a decrease in sales. In fact, LMC Automotive – a leading automotive research firm – projects a 25 percent tariff on imported vehicles will result in an annual sales impact of 1 to 2 million units, depending on how much of the cost of the tariffs is passed on to consumers.[9]

There is a direct correlation between vehicle sales and auto employment in the U.S. – a decline in vehicle sales is bad for jobs. In particular, when new vehicle sales drop, automakers and suppliers begin to scale back production, resulting in eliminated shifts and employee lay-offs. A recent analysis conducted by the Peterson Institute for International Economics shows that a 25 percent tariff on imported vehicles and vehicle components would result in a 1.5 percent decline in production and cause 195,000 U.S. workers to lose jobs over a 1- to 3-year period or possibly longer.[10] Further, the analysis estimates that if other countries retaliate with their own tariffs then American job losses would likely increase to 624,000. It should be noted that the employment impact of any tariffs (and retaliation) would be felt nationwide – in automakers' plants, where vehicles are assembled; in the factories where the parts for those vehicles are made; and in the local communities where the dealers who sell those vehicles are located.

Increased vehicle costs also impact vehicle fleet turnover, as the average age of a vehicle on the road today is roughly 11.5 years old. If consumers cannot afford to purchase a new vehicle, then they may decide to hold on to their current, less efficient vehicle longer. As a result, the cycle of fleet turnover is worsened – resulting in disruption to the industry and national economy, and impacting our collective safety and environmental goals by delaying the deployment of today's new safer and cleaner vehicle technologies.

By increasing vehicle costs to consumers and triggering retaliatory measures, tariffs would restrict access to other international markets, depress vehicle and vehicle parts exports, and

---

[9] Copolla, G. "Trump Tariffs May Cost Carmakers 1 Million Auto Sales a Year." Bloomberg Business. June12, 2018. https://www.bloomberg.com/news/articles/2018-06-12/trump-tariffs-may-cost-carmakers-at-least-1-million-annual-sales

[10] Robinson, S., Thierfelder, K.,Schott, J., Jung, E., Lu, Z., and Kolb, M. "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

threaten the industry's competitiveness in today's global market. Last year, exports of cars and parts amounting to over $99 billion were shipped from U.S. ports. The economic activity that our industry generates throughout our nation's ports supports thousands of American jobs. These jobs, as well as those jobs tied to the production for vehicle exports, would be put in jeopardy should our exports decline as a result of retaliatory measures.

The prospects of these Section 232 tariffs and the likely retaliation by other countries could not come at a worse time for the industry. After seven years of record growth (2010-2016), automakers witnessed flat or declining sales in 2017, and 2018 sales are projected to be roughly the same. In this softening economic environment, the industry cannot afford the added burden of tariffs. As noted, their imposition will contribute to a decline in vehicle sales and the resulting harm will further stall the industry's growth, with severe consequences for the industry and the overall U.S. economy. Moreover, while vehicle exports would normally represent Alliance members' best opportunity to make up for those lower domestic sales, the imposition of the Section 232 tariffs, and the threat of retaliation, would make U.S. produced vehicles non-competitive in foreign markets, increasing the likelihood that manufacturing shifts would have to be eliminated and workers laid off.

Tariffs Would Undo the Benefits of Tax and Regulatory Reform Efforts & Chill Future Economic Investment

Automakers are very appreciative of the Administration's efforts to provide long overdue tax reform and regulatory relief. These actions have made the U.S. a more attractive environment for business investment, and are already having a positive economic impact. However, 25 percent tariffs on imported autos and auto parts have the potential to erode the benefits achieved in these areas. In fact, they would more than wipe out the tax savings attributable to the recent tax cuts. Indeed, a recent analysis by the Tax Foundation found that the tariffs would amount to a $73 billion tax increase, assuming import levels remain the same.[11] The analysis concludes by stating, "If imposed, these automobile tariffs would fall more on middle- and lower-income

[11] York, E. "Automobile Tariffs Would Offset Half the TCJA Gains for Low-income Households." June 4, 2018. https://taxfoundation.org/automobile-tariffs-2018/?utm_source=Corporate&utm_campaign=599962eac5-EMAIL_CAMPAIGN_2018_06_04_07_52_COPY_01&utm_medium=email&utm_term=0_94e6588ff2-599962eac5-429121933&mc_cid=599962eac5&mc_eid=6afd4735f6

taxpayers, reducing the increase in income these households would see because of the Tax Cuts and Jobs Act, and making the distribution of the tax burden less progressive."[12]Additionally, Federal Reserve Chairman Jerome Powell recently echoed concerns about the potential impact of the Administration's trade-related activities on the economy stating, "concerns seem to be rising, for the first time we are hearing about decisions to postpone investment, postpone hiring."[13]

The prospect of tariffs (and retaliation) will chill future auto investment in the U.S. and, if the tariffs are implemented (and other nations retaliate), the very nature of the U.S. market would likely change. Forced to source parts locally, U.S. automakers' production costs would increase while their margins decrease, along with the overall demand for new vehicles. Producing vehicles in the U.S. and selling them globally would no longer be economically justifiable. Under these circumstances, the attraction of making new manufacturing investments in the U.S. market would likely diminish and capital would flow elsewhere.

It's also worth highlighting the potential contradiction the Department of Commerce's Section 232 investigation will likely have with another significant regulatory action that is currently under review with the White House Office of Management and Budget (OMB). Just last month, the U.S. Department of Transportation (DOT) and the Environmental Protection Agency (EPA) jointly submitted a draft proposal for OMB review as the Administration considers potential changes to the fuel economy and greenhouse gas (GHG) emissions standards for Model Year (MY) 2021-2026 light-duty vehicles. In its April 12, 2018 Final Determination, EPA noted that:

> "Based on our review and analysis of the comments and information submitted, and EPA's own analysis, the Administrator believes that the current GHG emission standards for MY 2022–2025 light-duty vehicles presents challenges for auto manufacturers due to feasibility and practicability, raises potential concerns related to automobile safety, and results in significant additional costs on consumers, especially low-income consumers. On the whole, the Administrator believes the MY 2022–2025 GHG emission standards are not appropriate and, therefore, should be revised as appropriate."[14]

---

[12] Id.
[13] https://www.cnbc.com/2018/06/20/reuters-america-powell-says-u-s-trade-policy-could-impact-outlook.html
[14] Federal Register**.** Vol. 83, No. 72. April 13, 2018. Pg. 16078.

So, while on the one hand, motor vehicle safety and affordability has been a guiding principle that the President, DOT and EPA have outlined to justify the need for possible changes to auto fuel efficiency standards, a 25 percent tariff on imported autos and auto parts will jeopardize consumer affordability by increasing the average price of an imported automobile by more than five thousand dollars (not counting the potential retaliatory and jobs impact from such a decision).

Automakers Pave the Way for Transformation in Mobility

The auto industry is witnessing a profound transformation in personal mobility and automakers in the U.S. are leading the way on the research and development (R&D) of future innovative vehicle technologies, including electrification and automation. In fact, automakers invest more than $20 billion in U.S. R&D and operate 79 R&D facilities throughout the country. Silicon Valley is rapidly transforming into the Motor City of the West with automakers, suppliers, startups, and other tech companies taking root to help drive this rapidly advancing mobility shift. Several automakers have partnered with tech companies like Waymo, Cruise Automation, and Uber to accelerate the safe testing and deployment of highly-automated vehicles (HAVs).

HAVs have tremendous potential to save lives and reduce traffic congestion, fuel use, and carbon emissions, while expanding personal mobility. Automakers are also investing heavily in the next generation of fuel-efficient powertrains, including hybrids, plug-in hybrids, battery-electric, and fuel-cell electric vehicles. The increased electrification of our transportation fleet will play an important role in achieving future energy and environment gains.

Alliance members are concerned that the imposition of tariffs on imported vehicles and vehicle components will mean less capital for automakers to invest in these technologies, and thereby disrupt U.S. leadership in the development of these future, innovative technologies. We are already in the midst of an intense global race to lead on electrification and automation. The increased costs associated with the proposed tariffs may result in diminishing the U.S.' competitiveness in developing these advanced technologies and related safety and mobility benefits.

Recommendations to Enhance the Economic Security of the U.S. Auto Industry and Nation

We understand the Administration's desire for a "level playing field" when it comes to international trade. However, imposing 25 percent tariffs on imported autos and auto parts will actually hurt consumers and our member companies' ability to invest in the U.S. and compete in the global market. Rather than proceed with these tariffs, to level the playing field, the Alliance recommends that the Administration pursue the following initiatives:

- **Modernize NAFTA:** The Alliance supports the Administration's efforts to modernize the North American Free Trade Agreement (NAFTA) to make it relevant in a 21st century world. America's automotive industry has a significant economic stake in the outcome of the renegotiations of NAFTA, perhaps more than any U.S. industrial sector.
  Last year, the U.S. shipped $87 billion in autos and auto parts to Canada and Mexico. The auto industry in the U.S. relies heavily on the interconnected regional supply chain that NAFTA has created throughout North America. Auto manufacturing throughout the NAFTA region has helped anchor automaker and supplier engineering and R&D operations largely within the U.S. In doing so, it creates and supports thousands of high-wage auto sector jobs.[15]
  The Alliance remains concerned that the ongoing re-negotiations of NAFTA have reached a stalemate and encourages the three partners to stay at the negotiating table in efforts to seek a workable solution. We are hopeful that an agreement can be reached on a NAFTA "2.0" that builds on the agreement's existing benefits to further enhance our nation's global competitiveness and grow U.S. manufacturing and jobs.
- **Conclude a U.S. – E.U. Trade Pact:** Additionally, the Alliance recommends the U.S. restart bilateral negotiations with the European Union (E.U.). The E.U. has recently expressed a willingness to engage in bilateral discussions on a limited trade agreement

[15] Center for Automotive Research, *NAFTA Briefing: Trade benefits to the automotive industry and the potential consequences of withdrawal from the agreement*. January 2017

covering industrial goods. Automakers would support such efforts as they would provide a good opportunity to pick-up on the progress achieved during the previous negotiations on the Transatlantic Trade and Investment Partnership (TTIP). Within the context of those negotiations, auto manufacturers and suppliers on both sides of the Atlantic worked together to improve market access by removing regulatory barriers and addressing automotive tariffs. Reinvigorating those discussions would help achieve the Administration's goal of seeking free and fair trade opportunities and help expand export opportunities for automakers in the U.S.

- **Address Regulatory Barriers to Foreign Markets:** Automakers also encourage the Administration to pursue opportunities to remove regulatory barriers abroad to further grow U.S. auto exports. For example, the E.U. has been successful in persuading other markets to accept vehicles certified to the United Nations Economic Commission for Europe (UN ECE) safety standards, and the United States should also advocate for the official acceptance of vehicles certified to U.S. motor vehicle safety standards (FMVSS). The Alliance would welcome opportunities to work with the Administration to encourage markets to accept vehicles certified to U.S. FMVSS standards, in addition to those certified to meet UN ECE standards. We believe such efforts would help improve market access opportunities abroad.

Conclusion

The Alliance respectfully suggests that there is no basis to claim that auto-related imports are a threat to national security. In 1941, there were 31 manufacturing facilities in the U.S producing fewer than four million vehicles.[16] Today's 45 assembly plants (operated by both domestic and international automakers) produced nearly 12 million vehicles last year – more than three times the production volume pre-WWII – and are currently operating at more than 80 percent capacity. If those 31 facilities operating in 1941 were able to shift to the production of war-related material necessary to support our nation during WWII, then we are confident that today's U.S. production capabilities are more than sufficient to satisfy our country's future security needs.

Additionally, 98 percent of the vehicles imported into the U.S. last year came from our national security allies, and trading partners, including Canada, the European Union, Japan, South Korea,

[16] Wards Intelligence, *U.S. Vehicle Production 1900-2017*.

and Mexico. Given the production capacity here in the U.S. and the source of our automobile imports, automakers are confident that imported vehicles and vehicle components do not pose a risk to our national security. In fact, we are concerned that the imposition of 25 percent tariffs on imported automobiles and automotive parts may have the opposite of its intended effect. Such action could impose economic harm on consumers, our companies and closest foreign trading partners – thereby ultimately undermining our national security, not to mention inviting retaliatory measures that will negatively impact American workers and families outside of the auto sector.

We therefore urge the Administration to refrain from imposing tariffs on imported automobiles and automotive parts. These imports do not pose a threat to U.S. national security or our economic security.

U.S. automakers are all global companies that operate and sell in markets throughout the world. Free and fair trade has allowed them to remain competitive in today's global marketplace. Erecting trade barriers – like import tariffs – will invite retaliation from other nations and affect our leadership and competitiveness overseas. More importantly, tariffs will be a tax on our customers, increase our costs in the U.S., and impact our ability to invest in technology development, manufacturing expansion and improvements, and job creation in the United States.

The Alliance appreciates the opportunity to provide comment on the ongoing Section 232 investigation of imported automobiles and automotive parts. Automakers support the Administration's goals of growing U.S. manufacturing and American jobs and we are committed to working with the Administration to improve U.S. economic welfare and to advance opportunities that remove barriers to free and fair trade.