



**The American Automotive Policy Council
Comments on U.S. Section 232 Investigation into the Effects of Imports of
Cars, SUVs, Vans and Light Trucks, & Automotive Parts on National Security**

June 29, 2018

Introduction

The American Automotive Policy Council and its members— FCA US LLC, Ford Motor Company and General Motors Company – are writing in response to the *Notice of Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Automobiles, including Cars, SUVs, Vans and Light Trucks, and Automotive Parts*, pursuant to Section 232 of the Trade Expansion Act of 1962, as amended, 19 U.S.C. § 1862, and submitted in accordance with the Commerce Department’s *Federal Register* notice, 83 Fed. Reg. 24735 et seq. (May 30, 2018).

The American Automotive Policy Council (AAPC) represents the common public policy interests of its member companies – FCA US LLC, Ford Motor Company and General Motors Company (FCA US, Ford and GM). These three companies are the heart of the industrial base of the United States and an engine of the American economy.

We sincerely appreciate the opportunity to provide our data, analysis and guidance to those at the U.S. Department of Commerce (Commerce) conducting this investigation. Given the enormous impact increased tariffs could have on U.S. automakers and our employees, suppliers, dealers and customers, we are hopeful that our input will affect the outcome of the investigation.

This submission is organized into the following sections:

- **Summary**
- **Economic Contributions**
- **Economic Impact of Raising U.S. Automotive Tariffs**
- **An Alternative Policy Approach – Expanding U.S. Exports, and**
- **Conclusion**

The attachment **Information and Data Requests** responds to the questions posed in the Auto 232 Federal Register notice for comment.

Summary

AAPC and our member companies share the objective of the U.S. government to maximize the economic contributions America’s automotive sector makes to the U.S. economy, and appreciate the focus on and intent of the U.S. government to implement policies in support of the U.S. automotive industry.

The U.S. economy has enjoyed an extended period of strength, stability and growth, and America's automakers – FCA US, Ford and GM – have played a critical role in that success. Since the industry's restructuring in 2008 and 2009, FCA US, Ford and GM have thrived, enabling these three companies to significantly grow their investments, sales, production, exports, innovation, and employment in America. During that same period, FCA US, Ford and GM's U.S. car and light truck production and sales shares have held steady at about 53% and 45% respectively (2010-2017). Furthermore, in parallel, U.S. passenger car and light truck imports as a percent of sales (in units) have also maintained a relatively steady level.

Despite the U.S. government's positive intentions, after careful consideration of the broad consequences of raising U.S. auto tariffs, we have come to the conclusion that any increase in U.S. tariffs on passenger cars, light trucks and automotive parts will instead undermine the economic contributions FCA US, Ford and GM make to the U.S. economy.

Our opposition to raising tariffs on imported cars, light trucks and auto parts, is based on our view that it will lead to a net job loss and lower capital investment in the U.S. auto sector by increasing consumer cost and reducing choice, which in turn will lead to lower demand, and lower U.S. auto sales and production.

In particular, we believe a higher U.S. auto tariff on cars, light trucks and auto parts will:

Lead to a Loss of American Auto Jobs

The U.S. auto sector is responsible for creating and supporting more than 7 million American jobs. FCA US, Ford and GM, employ nearly two out of three American autoworkers, and those jobs support many others throughout the U.S. economy. In fact, auto assembly plant jobs have the largest "job multiplier" effect, due to the long and diverse supply chains in the auto industry, with every auto assembly job supporting an especially large number of supporting jobs, both – upstream jobs (e.g., auto parts suppliers) and - downstream jobs (e.g., dealerships).

The expected drop in auto sales, production and exports caused by an increase in the U.S. auto tariff will depress consumer demand (see below) and lead to a significant loss of both upstream and downstream jobs in the U.S., without any redeeming value in return. Third parties have estimated that, if a 25% tariff was assessed on imports and if - as expected - other countries retaliate, over 624,000 American jobs would be lost, and we concur with those estimates.

Lower Investment Levels

Over the past five years, FCA US, Ford and GM have announced more than \$34.5 billion in capital investments in their assembly engine and transmission plants, R&D labs, headquarters, administrative offices and other facilities. This represents nearly 60% of all automakers' announced investments in the United States.

Lower sales and production levels resulting from an auto tariff increase would mean less capital for U.S. automakers to invest here at home. This will result in less investment for our operations that support American jobs and for the development of advanced technologies (e.g., Electric Vehicles- EVs and Autonomous Vehicles- AVs) that will shape the future of automotive transportation and keep the U.S. globally competitive.

Increase Costs for Consumers

If, for example, a 25% tariff is assessed on auto parts, the cost to manufacture a passenger vehicle domestically will also rise significantly (e.g., about \$2,000 on the average cost to manufacture a passenger vehicle with 35% import content) due to price increases on imported auto parts content. Combined with the estimated \$400 per car cost increase resulting from the steel and aluminum tariffs recently imposed by the Administration (\$4 billion annually), U.S.-built cars and light trucks will face a total of more than \$2,400 per vehicle cost disadvantage vis-à-vis our global competitors. A 25% increase in the U.S. tariffs on imported cars and light trucks, for example, would increase the cost to import the average car and light truck brought into the U.S. by nearly \$6,000. These increases will, in large part, be passed on to U.S. consumers.

On a national level, a 25% tariff on passenger cars, light trucks and automotive parts represent an annual increase of more than \$83 billion in the tax burden placed on U.S. industry and its consumers (based on 2017 production and assuming no changes in demand). This breaks down to a \$48 billion increase in the tax on cars and light trucks; and an increase of \$35 billion in the tax on auto parts.

If the \$4 billion added cost to the auto industry that has resulted from the Section 232 on steel and aluminum, and the \$3 billion in auto tariffs that will result from the 301 on China¹ were added to the \$83 billion impact of the auto tariffs, then the total added tax burden on industry and consumers accumulated through recent changes in U.S. auto trade policy could total more than \$90 billion annually.

Lessen Consumer Choice

Often vehicles currently imported into the U.S. cannot be economically manufactured in the U.S., since they lack the volume needed to justify the capital expenditures necessary to produce domestically. These imports typically include smaller segment cars, niche products, and vehicles with non-mainstream features (e.g., manual transmissions and diesel engines). Since many of the aforementioned vehicles are provided through imports - and since significant increases to the auto tariff will price many of these vehicles out of the U.S. market - tariffs will lead to fewer choices for American consumers.

Lower Consumer Demand

Higher prices and fewer choices will lead to reduced demand by American consumers. A significant tariff increase on passenger cars and light trucks, coupled with equivalent tariff increases on automotive parts, would stifle U.S. consumer demand for imported vehicles and for vehicles manufactured in the U.S., since, as noted above, all vehicles produced in the U.S. include imported automotive parts that will be assessed a higher tariff, which will add to the cost of building a vehicle in the United States.

Reduce Car and Light Truck Production and Sales

Lower consumer demand will ultimately lead to lower U.S. auto sales and production levels. This reduction in auto sales and production will adversely impact the entire auto sector, including the upstream industries that support and supply the automakers with steel, glass, aluminum, rubber, iron, and semiconductors, etc. and the downstream car and light truck dealerships that rely on new sales to employ millions of Americans across all 50 states.

¹ The inclusion of the added costs associated with the China 301 in our analysis should not be interpreted to mean that AAPC is taking a position on the propriety of these tariffs.

Suppress Motor Vehicle Exports

The U.S. automotive industry is the single largest export sector – exporting nearly \$143 billion in motor vehicles and automotive parts last year. Nearly one in five cars and light trucks manufactured in the U.S. is exported - valued at \$57 billion.

Raising import tariffs, based on national security, establishes a dangerous precedent that other nations could use to close their markets to U.S. auto products. A more immediate concern is the expectation that if tariffs are levied against foreign passenger vehicle and parts, those nations will retaliate by increasing tariffs on U.S. auto exports. This would lead to a sharp drop in U.S. auto exports - one of the key drivers of the U.S. auto industry's comeback over the last decade. Even without this likely retaliation, the increased costs for auto parts for American manufacturers will undermine U.S. competitiveness in markets around the world.

We, therefore, see no evidence that automotive imports are a threat to the U.S. auto industry, nor that raising import tariffs on cars, light trucks and automotive parts would benefit the U.S. economy or national security. As is made clear above, we have concluded that this action will instead have the opposite effect.

As an alternative to tariff increases, we propose the following policy options, which are designed to increase the competitiveness of the U.S. auto industry, here at home and abroad:

- **Complete NAFTA:** The swift completion of a modernized NAFTA, which builds on the economic and trade successes of the past, should be the first priority for the Administration in order to strengthen the economic security of the U.S. auto industry;
- **Increase American Exports:** Creating more opportunities for exporting more American-made automotive parts and vehicles is a much more effective means to strengthen our domestic auto industry. By industry and government working together the U.S. could significantly increase U.S. automotive exports and the American jobs those exports support;
- **Conclude New Free Trade Agreements (FTAs) and Uphold Current Agreements:** We encourage the Administration to pursue new FTAs to remain globally competitive. We are particularly interested in renewing the bilateral negotiations to establish a U.S.-EU FTA, which would not only have positive economic ramifications for each side, but will also help to diffuse the trade tensions between these two close allies;
- **Pursue the Wider Acceptance of U.S. Auto Safety Standards:** Building vehicles to more than one set of regulatory standards is expensive, making it unprofitable for certain U.S.-made vehicles to be sold in markets that do not accept U.S. standards. We encourage the Administration to proactively expand its work with industry to open export markets to vehicles meeting U.S. safety standards; and,
- **End Currency Manipulation:** Governments that manipulate their currencies to artificially undervalue and subsidize their exports hinder the price competitiveness of U.S. exports into the manipulating country's market and third countries, growing the U.S. trade deficit. We encourage the Administration to include enforceable currency rules in all new and renegotiated trade agreements.

AAPC and its member companies appreciate the opportunity to provide comments on the Section 232 autos investigation. Working together, we hope industry and government can find agreement on policy alternatives to expand U.S. export opportunities and grow the number of American jobs that those exports would support.

Economic Contributions

U.S. Automotive Sector

The U.S. automotive sector (in total) makes an enormous contribution to the United States economy. No other single industry is linked to so much of U.S. manufacturing or generates so much retail business and employment:

- **GDP** – Automakers, their suppliers, and dealers together are one of America’s largest economic sectors, responsible for 3.3% of America’s gross domestic product (GDP) in 2017;²
- **American Jobs**- The U.S. automotive sector employs and supports more than 7 million Americans, across all 50 states - more than any other industry sector;³
- **Exports**- The U.S. automotive industry is the single largest export sector – exporting nearly \$143 billion in motor vehicles and auto parts last year (including \$57 billion in passenger vehicles);⁴
- **Purchases**- The U.S. auto sector supports many other U.S. industries by purchasing hundreds of billions of dollars’ worth of American steel, glass, aluminum, rubber, iron, and semiconductors;⁵
- **R&D** – The U.S. auto sector makes one of the largest investments in R&D, investing more than \$22 billion last year alone;⁶
- **Tax Revenues** – The industry accounts for \$205 billion in federal and state tax revenues across the country;
- **Investments** – Every year the U.S. auto industry invests tens of billions of dollars in its U.S. assembly, engine and transmissions plants, R&D labs, headquarters, administrative and other facilities.

FCA US, Ford Motor Company & General Motors Company

FCA US, Ford and GM differentiate themselves from the other automakers operating in the U.S. in that they: Have deep historical roots (over 100-years operating in the United States), and represent iconic American brands (e.g., Jeep, Dodge, Ford, Lincoln, Chevrolet, and Cadillac). These three companies also produce more of their vehicles here and buy more of their parts from American suppliers. As a result, FCA US, Ford and GM employ nearly two out of three American autoworkers (with six times more of their global workforce in the United States when compared to their competitors) and operate three out of five of America’s auto assembly plants.⁷ No other automakers can match this history, profile and level of economic contribution.

² U.S. Bureau of Economic Analysis (BEA), Department of Commerce (GDP Gross Output) both the manufacturing and service side of the industry.

³ Center for Automotive Research – [Contribution of the Automotive Industry to the Economies of All Fifty States and the United States](#) (January 2015).

⁴ U.S. Bureau of the Census, and the International Trade Commission (ITC) trade database.

⁵ Ward’s Auto Motor Vehicle Facts and Figures 2017.

⁶ 2018 Global R&D Funding forecast – a supplement to the R&D Magazine (Winter 2018).

⁷ AAPC State of the U.S. Automotive Industry 2018 Report.

Economic Impact of Raising U.S. Automotive Tariffs

An increase in the U.S. tariffs on imported motor vehicles and automotive parts represents a real and significant threat to the health of the U.S. automotive sector. This action would rapidly increase prices for cars, light trucks and auto parts, depress consumer demand, reduce U.S. production, sales and investment; lead to a loss of American jobs - both direct and indirect - and suppress U.S. auto exports by making them more expensive and less globally competitive. Moreover, this policy risks significantly eroding the benefits of the recent tax and regulatory changes advanced by the Trump Administration.

The following is an analysis of the cost impact of an increase in the U.S. auto tariffs:

Imported Cars and Light Trucks

Cost Increase

The average value of a passenger car and light truck imported into the U.S. last year was \$23,200.⁸ AAPC estimates that if the import tariff on passenger cars and light trucks is raised to 25% - which the Administration has signaled it is considering - it will add nearly \$6,000 to the cost of that vehicle.

Increase in U.S. Car Tariff to 25% & Resulting Cost Increase on and Average Imported Car		
Avg. \$ value of Import Car	Import Tariff	U.S. Tariff Increase \$
\$23,200	25.0%	\$5,800

The total annual cost of a 25% import tariff on the \$192 billion in cars and light trucks imported into the U.S. in 2017 would total \$48 billion in added tax burden. This is assuming that there would not be a negative effect on consumer demand.⁹

Lower Demand

Any additional tariff beyond the existing most favored nation (MFN) rate would have a negative effect on demand. The impact of a 25% tariff would lead automakers to curtail imports into the U.S., as demand for most vehicles, at a 25% premium, would plummet. It would also have severe implications for U.S. suppliers, many of which export large quantities of components to automakers assembling vehicles in Canada and Mexico. As demand for these imported vehicles would virtually collapse, so would demand for those suppliers' parts, imperiling a large segment of their business and, ultimately, their workers' jobs.

Less Consumer Choice

Imported car and light trucks typically include niche products and vehicles with non-mainstream features. These vehicles cannot be economically manufactured in the United States, since they lack the production scale that is needed to justify such large capital expenditures.¹⁰ Thus, significant increases to

⁸ U.S. ITC and the U.S. Bureau of the Census. Commerce ITA auto office definition of new passenger vehicle. (Import \$ value divided by import units).

⁹ The cost increase per imported car = \$5,800 multiplied by 8.27 million = \$48 billion.

¹⁰ The capital investment needed to build a motor vehicle manufacturing plant in the United States exceeds \$1 billion dollars.

the auto tariff will price these vehicles out of the U.S. market, the end result will be fewer choices for American consumers.

This scenario of raising U.S. auto tariffs would not be a boon for U.S. domestic automakers and suppliers. Manufacturers will have no choice other than to raise prices for U.S.–produced vehicles to account for increased production costs and declining revenues from imports and exports. After housing, autos are the second-largest purchase most consumers make, and a sudden increase in prices could lead consumers to delay purchasing a new vehicle or turn to the used vehicle market. It is not unreasonable to believe that Section 232 tariffs could quickly alter the U.S. auto market, reducing it significantly, with severe implications for American auto workers.

U.S. Vehicle and Parts Exports - Impact of Retaliation

The U.S. automotive industry is the single largest U.S. export sector – exporting nearly \$143 billion in motor vehicles and auto parts last year. Nearly one in five cars and light trucks manufactured in the U.S. is exported- valued at \$57 billion.¹¹

We can fully anticipate that by unilaterally raising U.S. tariffs on motor vehicles and parts, U.S. trade partners will retaliate by increasing their tariffs on U.S. vehicle and parts exports. This expectation is confirmed by the EU’s retaliation against the U.S. imposition of tariffs on European steel and aluminum.¹² Retaliation by just a few of the largest destinations for U.S. car and light truck exports, representing 18% of U.S. production, would have devastating impacts on domestic car and light truck production levels.¹³

Even if our trade partners do not retaliate, the increased costs associated with a higher tariff on automotive parts will price U.S.-built vehicles out of many export markets, dramatically reducing U.S. vehicle exports. And with exports representing nearly one-in-every five vehicles built in the U.S., raising auto tariffs risks hundreds of thousands American jobs that are supported by these exports.

Employment

The U.S. auto sector is responsible for directly employing and indirectly supporting more than 7 million American jobs.¹⁴ This large number of jobs supported is possible due to auto assembly plants having the largest “job multiplier” effect - stemming from the long and diverse supply chains found in the auto industry. Each auto assembly plant job supports a large number of upstream (automotive parts and component manufacturers, glass, rubber, plastic, steel, aluminum and semiconductor suppliers, etc.) and downstream (dealerships, auto service centers and other auto-service related) jobs.¹⁵

If a significant tariff is imposed on imports of cars, light trucks and automotive parts, soon after, all vehicles and auto parts will experience higher prices. Higher prices, even incremental, will lead to less demand; less demand will lead to lower sales, and lower sales will lead to fewer auto-related jobs.

¹¹ U.S. Bureau of the Census, and the International Trade Commission (ITC) trade database 2017.

¹² “European Union countries ...unanimously backed a plan to impose import tariffs on 2.8 billion euros (\$3.3 billion) worth of U.S. products after Washington hit EU steel and aluminum with tariffs at the start of June...” [link here](#)

¹³ U.S. Bureau of the Census, and the International Trade Commission (ITC) trade database; Ward’s Automotive Database-vehicle production 2017.

¹⁴ Center for Automotive Research – [Contribution of the Automotive Industry to the Economies of All Fifty States and the United States](#) (January 2015).

¹⁵ AAPC State of the U.S. Automotive Industry 2018 Report.

The Peterson Institute for International Economics has analyzed the impact that a 25% tariff on auto imports would have on U.S. auto production and jobs. When the prospect of retaliation by U.S. trade partners is taken into account, they estimate that there would be a significant drop in U.S. auto production, and a drop in U.S. employment that is estimated to be about 624,000.¹⁶ They also estimate that 195,000 American jobs would be lost even if there was no retaliation.

Another study conducted by the Trade Partnership Worldwide LLC, concluded that *“Motor vehicle and parts tariffs of 25 percent would have serious net negative impacts on the U.S. economy overall. They would adversely impact many workers in manufacturing sectors, and hundreds of thousands of workers in services sectors that depend on the health of manufacturing. The tariffs would boost automobile prices, both domestic and import.”* Specifically, the report states that a 25% tariff on vehicles and parts would reduce the U.S. GDP by \$18 billion and lead to a net loss of 157,000 U.S. jobs¹⁷ This jobs impact is close to the one estimated by the Peterson Institute. But unlike the Peterson Institute, this analysis does not account for the possibility of retaliation, which we agree would have an even larger impact.

We view the estimate of 157,000-195,000 jobs lost (assuming no retaliation) and 624,000 jobs lost (if there is retaliation) as reasonable estimates, and largely concur with their conclusion.

U.S.-Built Cars and Light Trucks

Cost Increases

Any increase in a U.S. import tariff on automotive parts, particularly an import tariff as high as 25%, which the Administration is reportedly considering, would negatively impact all automakers operating in the U.S. - both foreign and domestic - not to mention American automotive parts suppliers. All automakers incorporate imported parts into the vehicles they build in the United States, albeit at different levels. Thus, if a 25% import duty on auto parts were imposed, U.S.-built cars and light trucks will experience significant price increases.

For example, a 25% tariff increase would significantly increase the cost of manufacturing a vehicle in the United States. Assuming that about 75% percent of the cost to manufacture a motor vehicle is attributable to the cost of auto parts, components and materials,¹⁸ a vehicle that cost \$30,500¹⁹ to manufacture would include nearly \$23,900 in parts and materials. If it has 65% U.S. content level (35% imported content), the proposed tariff would increase the cost of the vehicle by \$2,000 (see table below). Combined with an estimated \$400 per car cost increase resulting from the steel and aluminum tariff increases recently imposed by the Administration, U.S.- built cars and light trucks will face a total cost disadvantage vis-à-vis our global competitors of \$2,400.²⁰

¹⁶ 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.html>.

¹⁷ [An Accident Waiting to happen](#)- the estimated impacts of tariffs on motor vehicles and parts (May 29, 2018).

¹⁸ McKinsey & Company, New Horizons: Multinational Company investment in Developing Economies Oct. [2003 Preface to the Auto Sector Cases](#), Roland Berger: Deutsche Bank Report: Team Analysis - page 119. MEMA, [“Driving the Future: The Employment and Economic Impact of the Vehicle Supplier Industry in the U.S.”](#) (Jan. 26, 2017) – estimates the value at 77%.

¹⁹ [Bureau of Economic Analysis](#) – Value of average car and light truck manufactured based on NAICS 336111 & 33612 gross output for 2016/2017 divided by the number of cars and light trucks manufactured (gross output /production units = \$30,500).

²⁰ AAPC estimates that the 25% tariff increase placed on steel and the 10% tariff on aluminum add up to a combined \$400 to the cost of an average car and light truck built in the United States. On a national level this tariff would represent about \$4 billion increase annually in the tax burden paid by the U.S. industry and consumers.

Increase in U.S. Auto Parts Tariff to 25% & Resulting Cost Increase of Average U.S.-Built Car/Light Truck			
U.S.-Built Car/Light Truck (Average Mfr. \$ Value)	Auto Parts (75% \$ Value of Mfr. Cost)	Import Auto Parts (35% \$ Value of Parts)	Proposed 25% Tariff (\$ Value)
\$30,500	\$22,900	\$8,000	\$2,000

The total annual cost of a 25% import tariff on the \$141 billion in auto parts imported into the U.S. in 2017 would total \$35 billion per year. This is assuming that there would not be a negative effect on consumer demand. And as noted above, the steel and aluminum 232 tariffs would add an additional \$4 billion in annual tax burden on automakers and their consumers, and the China 301 an additional \$3 billion.

Inevitably, the increased price of U.S.-built vehicles attributable to a higher tariff brought about through a Section 232 auto investigation will decrease sales, resulting in lower production, employment, investment and exports (even if one assumes no retaliation). Of course, an automaker might choose to reduce margins and absorb some of the increased costs. But this would have an adverse impact on the funds available for R&D and capital investment, jeopardizing the automaker's future competitiveness and its ability to maintain the United States' current edge in electrification of vehicle powertrains (EV) and Autonomous Vehicle (AV) technologies.

Reduce Production, Sales and Investment

The impact of higher prices discussed above will lower consumer demand, which will ultimately lead to lower U.S. auto sales and lower automotive production levels. This reduction will ripple through the U.S. economy – effecting other important U.S. economic sectors that supply the auto industry.

Again, as noted above, lower sales and production will lead to less capital for U.S. automakers to invest here at home, reducing the funds available to invest in R&D.

Total New Cost Increases

The estimated new \$48 billion in tariffs on cars and light trucks, the \$35 billion on cars and light trucks, the \$4 billion in steel and aluminum 232 tariffs, and the \$3 billion in higher tariffs (import and export) stemming from the China 301 action²¹ – add up to an increase of \$90 billion in tax burden.

Total New Costs Assessed on U.S. Industry and Consumers		
Category	Proposed and (Actual) Tariff Rate	Added Annual Tax Burden (\$ Billion)
Cars and Light Trucks 232	25%	\$48
Auto Parts/Components 232	25%	\$35
Steel & Aluminum 232	25% & 10%	\$4
China 301 Tariff & Retaliation	25%	\$3
TOTAL	---	\$90

²¹ The inclusion of the added costs associated with the China Section 301 tariffs in our analysis should not be interpreted to mean that AAPC is taking a position on the propriety of these tariffs.

An Alternative Policy Approach - Expanding U.S. Exports

A much-preferred approach to raising tariffs on imports is expanding U.S. car, light truck and auto parts exports. The benefit of expanding U.S. exports meets the shared objective of maximizing the economic contribution the U.S. auto sector makes to the U.S. economy - noted above and avoiding the downsides of eliciting retaliation and adding unnecessary friction with our closest allies. In 2017, nearly 2 million cars were exported from the United States, a 90% increase from 2009.²²

If the auto industry and government work together to open markets around the world to U.S. motor vehicles, we would be able to increase exports by another 90% (the equivalent of \$51 billion in additional exports), which would represent 35% of U.S. production, and grow American jobs that an increase in car and light truck production would represent. This is modest when compared to our global competitors' percentage of production exported, but it would still lead to a substantial reduction in the auto trade deficit.

In order to accomplish this objective, efforts should be made to finalize the modernization of the North American Free Trade Agreement (NAFTA), explore or revisit the merits of establishing strong free trade agreements and address long-standing non-tariff barriers to U.S. exports.

NAFTA Modernization

The swift completion of a modernized NAFTA should be the first priority for the Administration in order to strengthen the economic security of the U.S. auto industry. Updating NAFTA to also include, among other improvements- locking-in acceptance of U.S. auto safety standards and enforceable currency disciplines, will strengthen the industry's ability to export more and grow the number of high-quality and high-paying American jobs. During the last negotiating round, the parties appeared to be very close to a final agreement, and we urge U.S. negotiators to return to the table and complete their work in making NAFTA a 21st century trade agreement.

Negotiate New U.S. FTAs and Uphold Current Agreements

We urge the Administration to consider establishing new FTAs with like-minded countries around the world. FTAs will not only provide additional opportunities for expanding U.S. auto exports, they will also provide continued engagement on regulatory convergence, curbing regulatory fragmentation, and managing the technological change sweeping the industry.

For example, renewing bilateral negotiations on a free trade agreement between the U.S. and EU (U.S.-EU FTA) could lead to the elimination of the 10% EU vehicle tariff and drive U.S.-EU auto regulatory convergence. This would not only have positive economic ramifications for each side but will also help to diffuse the trade tensions that currently exist between these two close allies. Given the progress that has already been made during the previous rounds of talks, we believe the U.S. and EU should revisit this work and strive to deliver results that will reduce costs and expand choices for consumers on both sides of the Atlantic.

Additionally, a strategic look at establishing U.S. free trade agreements with other large and growing markets around the world aimed at creating more export opportunities, should be explored jointly by U.S. government and industry. We also urge the Administration to finalize the updates to the U.S.-Korea

²² U.S. Bureau of the Census, and the International Trade Commission (ITC) trade database.

Free Trade Agreement that this Administration negotiated in order to provide the expected benefits for the U.S. auto industry.

Eliminate Barriers to U.S. Exports

In addition to high tariffs in other parts of the world, the inability to capitalize on our competitive advantages is in large part due to the non-tariff barriers to trade (NTBs) that other markets around the world have in place. The most significant NTBs include, lack of acceptance of U.S. auto safety and emissions standards and certification, discriminatory domestic tax structures, and currency manipulation.

Acceptance of U.S. Automotive Safety Standards and Certification Procedures

Building vehicles to more than one set of regulatory standards can be very expensive. These additional compliance costs make it unprofitable for certain U.S. manufactured vehicles to be sold in markets that do not accept U.S. auto standards.

U.S. automakers recommend that the U.S. government continue to proactively push for the acceptance of U.S. automotive safety standards in all markets. The lack of acceptance of U.S. automotive safety standards and certification procedures in markets abroad is a major barrier to selling U.S. produced vehicles in foreign markets. Over the past decade, the EU has been pursuing a well-organized and highly successful global effort to persuade other countries to accept vehicles certified to their standards.²³ When these standards are adopted they can and often do supplant the acceptance of vehicles certified to U.S. standards.²⁴

While the U.S. industry and government have been working together to face the well-organized efforts by the EU to promote their auto safety standards and certification systems around the world and address the broader regulatory fragmentation, recommitting to this longer-term effort is necessary or the U.S. risks further isolation and erosion of opportunities to export vehicles to large and growing auto market across the globe.

Currency Manipulation

A countries' manipulation of the value of its currency, primarily by artificially weakening the value vis-à-vis the U.S. dollar, provides an unfair competitive advantage for that countries' export industries. As such, currency exchange rates can be as important a determinant of trade outcomes as the quality of a particular traded good or service. In fact, currency manipulation can and often does have a much larger impact on trade than any of the tariff or non-tariff barriers that are the usual focus of U.S. free trade agreement negotiations.

An undervalued currency subsidizes exports while hindering the price competitiveness of imports into the manipulating countries' domestic market, which results in a lower number of U.S.-built cars and trucks exported to that country, as well as other markets around the world – e.g., Latin American and Middle Eastern markets – contributing to a higher U.S. trade deficit with these countries and the world.

²³ United Nations Economic Commission for Europe (UNECE) regulatory standards.

²⁴ U.S. Federal Motor Vehicle Safety Standards (FMVSS).

Conclusion

AAPC and its member companies appreciate the opportunity to provide comments on the Section 232 autos investigation, and we hope that the foregoing analysis and the following responses to the specific information requests (see attachment: Section 232 Auto Investigation – Information and Data Requests) provides insights into the current strength of the U.S. auto industry and America’s automakers.

FCA US, Ford and GM share the U.S. government’s goal of maximizing the growth and success of America’s automotive sector. To that end, we are eager to work closely with the Administration to find alternatives to increasing import tariffs, which we have concluded would have a net-negative impact on the U.S. economy, the U.S. automotive industry and American jobs. Working together, we hope industry and government can find agreement on policy alternatives to expand U.S. export opportunities and the American jobs that those exports would support.

Attachment

Section 232 Auto Investigation - Information and Data Requests

In response to the U.S. Department Commerce's Federal Register Notice's (83 FR 24735) specific requests for information on U.S. automotive trade, production, and R&D, we prepared the following input. We strongly recommend that the Administration's section 232 auto investigation take into account the following information and data.

U.S. Import and Export Levels of Passenger Cars and Light Trucks

Imports

As Commerce officials have pointed out, since 1997, U.S. imports have increased from 32% to 48% of the U.S. market (by units). Although accurate, there are two important factors that should also be considered when assessing this market shift:

1. The difference in the nature of our imports from our North American trade partners compared with other trade partners; and
2. The importance of taking into account the restructuring of the U.S. auto sector that took place in 2008-2009.

With regard to the former, last year just over half - or 4.3 million passenger vehicles - came from our NAFTA trade partners (Canada and Mexico). These passenger vehicles have very high levels of U.S. parts content (30-50% U.S. content). Therefore, much of the value of vehicle imported from Canada and Mexico are re-imports of U.S. content.

Regarding the latter, the timeframe used by Commerce does not account for the dramatic change in the U.S. auto industry after the Great Recession. In many ways there are two distinct periods – before and after restructuring. Given the change in the industry after restructuring, it makes little sense to make sweeping comparisons across the two periods.

Before 2009 and the restructuring, there was a steady decline in the U.S. market share of FCA US, Ford and GM, but after the restructuring, the combined U.S. market share of the three companies has been stable.

Furthermore, U.S. passenger car and light truck imports as a percent of sales (in units) have also maintained a relatively steady level since 2011.²⁵ Relatedly, the share of U.S. auto sales for FCA US, Ford and GM have stabilized - at around 45%.²⁶

When these two factors are taken into account, there is no need or justification to interfere in the U.S. auto market by increasing import tariffs.

Exports

U.S. car and light truck exports nearly doubled over the last decade – from \$25.4 billion in 2009 (1.1 million units) to \$57 billion (2.0 million units) in 2017. If, through a tariff action by the Administration, imports of motor vehicles are restricted with our trade partners, we can expect reciprocal retaliatory

²⁵ U.S. Bureau of the Census, and the International Trade Commission (ITC) trade database, and Wards Auto Reports for sales.

²⁶ Ward's Automotive Database - on car and light truck production and sales.

treatment of our exports, which will threaten the growing success of U.S. motor vehicle exports.²⁷ Moreover, since imports from Canada and Mexico represent half of U.S. imports (by units) and since these vehicles include very high levels of U.S. parts content, a 25% tariff on imports would also have severe effects on U.S. suppliers and the workers they employ.

U.S. Passenger Car and Light Truck Production, Output and Capacity

Production

As part of the section 232 auto investigation notification, Commerce noted that from 1990 to 2017, U.S. car and light truck production decreased by 22%. This simple comparison across decades does not account for market and sales fluctuations and other important contextual factors. A more meaningful comparison is U.S. production as a percent of U.S. sales. Over the past seven years 2010-2018 (5 months), U.S. production has tracked closely as a percent of U.S. sales.

The composition of the market is also important. Light trucks, including crossovers and SUVs, have increased in popularity and reached an all-time high of 65% of the share of light-duty vehicles sold in the United States. This change in market composition from cars to light trucks provides some automakers (e.g., FCA US, Ford and GM) with a comparative advantage over others.

With regard to the production levels of FCA US, Ford and GM, following the Great Recession (2008-2009) and the subsequent restructuring of the U.S. industry, the U.S. car and light production share of FCA US, Ford and GM have remained steady at about 53% (2010-2017).²⁸

Output

Similar trends are borne out when examining total auto sector gross domestic product (GDP). In 2016, the U.S. motor vehicle and auto parts manufacturing sector's gross output totaled more than \$701 billion - \$993 billion when the dealership and service side of the business is included.²⁹ This represents 3.3% of the GDP of the United States.

Between 1997 and 2017, gross output by the U.S. auto sector increased 165%, illustrating the recent success and overall health of the U.S. automotive industry. This output trend also indicates that a steady stream of industry investments has been made, which is necessary for maintaining and growing U.S. auto production and output levels.

As noted above, the Great Recession provided the industry with an opportunity to restructure and reinvent itself. Since that restructuring, the FCA US, Ford, and GM shares of U.S. production and sales have stabilized.

Production Capacity

Today, the U.S. auto industry is running near full production capacity. While there is some room for adding production, it would need to come from existing U.S. manufacturing facilities - by adding shifts

²⁷ "European Union countries ...unanimously backed a plan to impose import duties on 2.8 billion euros (\$3.3 billion) worth of U.S. products after Washington hit EU steel and aluminum with tariffs at the start of June..."

<https://www.reuters.com/article/us-usa-trade-eu/eu-countries-back-counter-measures-against-u-s-steel-tariffs-idUSKBN1JA27W>

²⁸ Ward's Automotive Database - on car and light truck production and sales.

²⁹ Bureau of Economic Analyses GDP Gross Output by NAICA code (336111-336390) 2007 =100
https://www.bea.gov/industry/gdpbyind_data.html

and overtime, since new plants would take several years to fully bring on-line. To further complicate the adding of shifts and overtime to existing plants, the U.S. job market is already at or near full employment. This would make it more difficult and costly for factories to hire U.S. workers to produce the additional products.

U.S. Automotive Industry Employment & Productivity

Today, the U.S. automotive industry (motor vehicle and auto parts manufacturers) directly employ more than 963,000 Americans.³⁰ Given the large multiplier effect of auto manufacturing jobs, this translates into supporting an additional six million American jobs.³¹ As noted above, auto assembly plants have the largest “job multiplier” effect - due to the long and diverse supply chains found in the auto industry.

In the section 232 auto investigation notification, Commerce noted that between 1990 and 2017, U.S. automotive employment decreased by 22%. However, this fact does not account for the significant increases in worker productivity, which explains much of the decline in auto employment.

Today, fewer jobs are needed to accomplish the same output³². In fact, output per person in the motor vehicle sector more than doubled between 1990 and 2017. This increase in worker productivity has helped keep the U.S. auto sector competitive at home and abroad through U.S. auto exports.

Automotive R&D Investment

The automotive sector is being transformed by the application of new and advanced technologies, including the electrification of vehicle powertrains (EVs) and the development of autonomous vehicle (AV) capabilities. These technologies promise to dramatically change the motor vehicle industry and the entire mobility experience.

Today, the U.S. is leading the way in both EV and AV technologies. These advantages are a result of large and targeted investments made by the U.S. government, the automotive industry sector, academia, and the Information and Communication Technology (ICT) industries involved in the development of AV technologies.

Many of the innovations and technologies critical to the EV and AV technologies first emerged in the U.S., including new autonomous capabilities, sensor technology, advanced batteries (e.g., lithium-ion), LADAR, along with numerous other important supporting technologies and innovations. These inventions and innovations have created a strong foundation and momentum for further advancements and breakthroughs in the coming years.

Total U.S. R&D investment is the highest of any other country, and it continues to grow. From 2008-2017, U.S. R&D increased by 132%.³³

³⁰ Bureau of Labor Statistics (NAICS 3361, 3362, 3363): <https://www.bls.gov/iag/tgs/iagauto.htm> (April 2018).

³¹ Center for Automotive Research, Contribution of the Automotive Industry to the Economies of All Fifty States and the United States (January 2015).

³² Bureau of Labor Statistics on [output per employee](https://www.bls.gov/lpc/tables.html) NAICS 3361, <https://www.bls.gov/lpc/tables.html>.

³³ Organisation for Economic Co-operation and Development (OECD) Database on R&D – Total R&D Investment by country

Total global investment in automotive R&D is estimated to be more than \$100 billion worldwide, and steadily growing, and U.S. automotive R&D totaled about \$22 billion, representing nearly 20% of global auto R&D.³⁴ Moreover, this is not the entire picture.³⁵ U.S. R&D investment in ICT is the world's largest by a wide margin. Importantly, our analysis suggests that a substantial portion of the U.S. auto R&D, especially for autonomous vehicle technology, is not classified under the automotive sector. Instead it is classified under the ICT sector. Since many of the high-tech ICT firms pioneering new innovations are not counted as auto companies, their R&D investment is not counted as automotive, even if the technology they are developing has automotive applications. So, if this investment was counted, the U.S. auto R&D number would be substantially larger.

Even in the era where the distinction between “automotive R&D” and “ICT R&D” has blurred, America's automakers (FCA US, Ford and GM) continue to make large and growing contributions to global auto R&D, including the important role of coordinating their suppliers' substantial and growing contributions in this area.

The vast majority of the R&D investments from America's automakers are made here in the United States - from Silicon Valley to Auburn Hills. In fact, AAPC estimates that nearly 80% of the combined R&D investments made by FCA US, Ford and GM are made in the United States. While Japanese, German and Korean automakers also make some auto R&D investments here in the U.S., the vast majority of Japan's auto R&D, and the majority of Germany's auto R&D Investment³⁶ is made in the country where their headquarters and test facilities are located.³⁷

The industry R&D investment patterns of Japan, Germany, U.S., and China are quite different. Japan and Germany place a larger emphasis directly on auto R&D (both about 30% of total R&D), and a smaller emphasis in ICT R&D (20% and 24% of total R&D). The U.S. as discussed above makes relatively smaller investments in auto R&D, but invests much more in ICT R&D, including auto-related ICT R&D (49% of total R&D). China makes much smaller auto R&D investments (one-quarter of less than the U.S.), and, like the U.S, China makes a much larger investment in ICT R&D (44% of total R&D). These different investment patterns make it difficult to compare across countries.

Regardless as noted above, any increase in U.S. tariffs will lead to higher costs, lower sales and production and, therefore, less capital to invest in U.S. operations, including those investments in R&D, which lay the groundwork for future success.

The recent drop in overall R&D investment growth in the U.S. is largely due to a decrease in the U.S. government's spending on R&D, which has been trending down over the past couple years as a

³⁴ Organisation for Economic Co-operation and Development (OECD) Database on R&D, [National Science Foundation](#) on U.S. R&D, AAPC member companies and AAPC estimates based in 2016 data, European Union 2017 [R&D Scoreboard](#) (U.S. auto R&D includes FCA R&D).

³⁵ JAMA, Japan Ministry of Internal Affairs and Communications, VDA – German Automobile Manufacturers Association December 17 2017 [press release](#).

³⁶ VDA – The German Automobile Manufacturers Association December 17 2017 [press release](#).

³⁷ R&D Magazine (winter 2018) and European Union R&D Scoreboard- “Companies' R&D and financial performance varies greatly...The EU has 29.7% of its R&D in automotive, 19.5% in ICT and 23.2% in Health with Japan fairly similar (30% automotive, ICT 24.3% and health 12%). The US, on the other hand, has only 8.1% in automotive but 49.2% in ICT and 26.5% in Health. China has some similarities to the US with 12.5% in automotive and 44.1% in ICT but has only 3% in Health.”

percentage of the total.³⁸ While industry has made up for some of this drop in funding, a return to the previous levels of U.S. government funding growth would return overall U.S. R&D spending growth to previous levels, and spur U.S. industry spending further – all contributing to ensuring that the U.S. maintains its technological lead in the critical technologies of the future. Another helpful approach would be to directly incentivize R&D investment, which has been an effective approach in the past, while avoiding the aforementioned unintended consequences.

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³⁸ R&D Magazine - 2018 Global R&D Funding Forecast (Winter 2018) "In the U.S., industry-funded R&D accounts for approximately 67% of all R&D monies invested, while government-funded R&D contributes about 25% of the total and academia contributes about 4%. The government's share of R&D funding has been slowly declining in the U.S. over the past several years, by default, the industrial share of R&D funding is increasing, again slowly."