

Chamber of Commerce Huntsville/Madison County

Position Statement

Should the President of the USA impose a 25% Tariff on Imported Automobiles & Parts?

The Issue

On Wednesday, May 23, 2018, U.S. Secretary of Commerce Wilbur Ross initiated an investigation under Section 232 of the Trade Expansion Act of 1962, to determine whether imports of automobiles, including SUVs, vans and light trucks, and automotive parts into the United States threaten to impair the national security.

Discussion:

Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862) authorizes the Secretary of Commerce to conduct comprehensive investigations to determine the effects of imports of any article on the national security of the United States. Section 232 investigations include consideration of:

- domestic production needed for projected national defense requirements;
- domestic industry's capacity to meet those requirements;
- related human and material resources;
- the importation of goods in terms of their quantities and use;
- the close relation of national economic welfare to U.S. national security;
- loss of skills or investment, substantial unemployment and decrease in government revenue; and
- the impact of foreign competition on specific domestic industries and the impact of displacement of any domestic products by excessive imports.

Section 232 requires that the Secretary notify the Secretary of Defense that an investigation has been initiated. The Secretary also consults with the Secretary of Defense regarding methodological and policy questions raised in the investigation and can seek information and advice from other government agencies.

The Secretary's report to the President, prepared within 270 days of initiation, focuses on whether the importation of the article in question is in such quantities or under such circumstances as to threaten to impair the national security. The President can concur or not with the Secretary's recommendations, and, if necessary, take action to "adjust the imports of an article and its derivatives." In addition, the Secretary can recommend, and the President can take, other lawful non-trade related actions necessary to address the threat.

It is understood that these factors must be linked to a finding that such weakening of our internal economy may impair the national security. As a result, the Department's and the President's determinations must be based on a legal finding that the U.S. lacks sufficient domestic capacity to meet defense requirements. In other words, Subsection 232(d) treats U.S. economic welfare as part of U.S. national security, but a Section 232 determination ultimately still must be based on a finding that "such weakening of the internal economy may impair the national security," i.e. the ability of the United States to meet "national defense requirements" in a time of war or other international crisis.

This interpretation is corroborated by the legislative history of Section 232. At the Senate Finance Committee’s hearings on the Trade Agreements Extension Act of 1955, Senator Humphrey (D-MN) explained that the intent behind the national security clause was to protect the country from imports that threatened the domestic “mobilization base” in the “event of war.” In amending Section 232 in the Omnibus Trade and Competitiveness Act of 1988, the Senate Finance Committee explained that an amendment requiring a larger Defense Department role in Section 232 investigations, was to “ensure that the Cabinet department with the greatest responsibility and expertise over national security matters has a role in recommending whether the President take action.” The amendment required the Secretary of Defense to conduct a separate defense needs assessment and submit a report to the Secretary of Commerce within three months of initiation of a Section 232 investigation and for Commerce to include Defense’s assessment in its report to the President. Senator Roth (R-Del.), who co-sponsored the amendment, emphasized the intent was to “secure an industrial base that can support our security needs.” Senator Byrd (D-WV), the Democratic co-sponsor, concurred, adding that “the language of the statute makes it clear that the threat of injury to national security must be assessed after weighing many factors, many of them within the expertise of the Department of Defense” and that the statutory reference to “economic well-being” is about “sustain[ing] our defense production base and support[ing] our military in time of crisis.” Byrd noted that the Defense Department “more than any other agency . . . should know whether the production of a particular industry is vital to national security and whether that production is being impaired by imports.”

While U.S. commercial motor vehicle production is important to U.S. economic welfare and employment, the U.S. industry does not produce vehicles for the U.S. military or other defense purposes. The procurement of military vehicles, e.g. the Mine-Resistant Ambush Protected (MRAPs), is limited to a small group of defense contractors producing highly specialized vehicles for military purposes at a cost that would be far beyond the means of the average middle-class U.S. household. Because of the highly specialized requirements for military purposes, e.g. transportation of troops and equipment, protection from mines and improvised explosive devices (IEDs), ability to traverse extremely rough, off-road terrain, the parts for such vehicles are also highly specialized and are typically manufactured specifically for military and defense purposes. It would be highly impractical to take parts for commercial vehicles designed to safely transport the average U.S. family in comfort and meet strict U.S. environmental and safety requirements and incorporate them in a military vehicle.

While Section 232(b) directs the President and the Commerce Department to take the effect of imports on U.S. economic welfare into account, this does not supplant the basic statutory requirement that imports must threaten U.S. national security. This has traditionally been interpreted by Commerce and the Defense Department, as referring to U.S. reliance on suppliers from a country whose interests are not aligned with the United States or the risk of disruption of U.S. supply lines for defense production in times of war or armed conflict. The U.S. has ample capacity to produce specialized vehicles for military use. While the commercial vehicle industry does not produce such vehicles, even if it was part of U.S. defense production base, which it is not, the U.S. has ample capacity to produce such vehicles too.

Since the start of a U.S. economic recovery from the Great Recession in 2009, the U.S. auto industry has vastly expanded capacity, employment, investment, and profitability. The industry comprises both the traditional Detroit-based automakers, as well as international automakers

(e.g. Toyota, FCA, Hyundai, Kia, Nissan, BMW, Daimler, Subaru, Honda, VW, and soon Mazda) with U.S. plants. These international automakers are headquartered in countries that are America's closest allies. It is difficult to foresee a situation in which any of them would engage in an armed conflict with the U.S. or cut off supplies of defense materials, and if they did, the United States would have an easy recourse of simply seizing their U.S. plants. Under NAFTA, Mexico and Canada have emerged as part of a highly integrated North American supply chain, and are also close U.S. allies.

Unlike, for example, the recent steel 232 investigation, the U.S. auto industry is not plagued by decreasing and unused capacity, a history of foreign dumping, or financial losses. Instead, since the last U.S. recession in 2008-2009, the U.S. industry has experienced nearly a decade of dramatic sales growth, increased profitability, growing employment, and increased capacity.

The U.S. is one of the world's biggest exporters and many U.S. industries, including autos, are global leaders and have successfully established a major presence in markets abroad. Exports are critical to future growth, since roughly 75% of the world's purchasing power and over 95% of world consumers are located outside America's borders. In 2017, U.S. exports totaled \$2.3 trillion in exports and \$2.9 trillion in imports of both goods and services. Automobiles contributed 10% percent of U.S. exports (\$158 billion), including auto parts, engines and car tires (\$86 billion) and passenger cars (\$53 billion).

The Section 232 investigation is focused on whether importation of automobiles and automotive parts is a threat to U.S. national security. As a benchmark, 56% of U.S. vehicles sold in the U.S. are made here. As with all statistics, the relevant question is: "Compared to What?" The percentage for Machinery (54%), Chemicals (53%) and Appliances (53%) could all certainly be argued as products fundamental to the U.S. economy. Should these industries also be investigated as a "national security threat" on economic grounds?

Meanwhile, only 1% of televisions and bicycles are made in the U.S., and less than 10% of toys. Of course, TVs, bikes and toys may not be a national security threat, but what about shoes, boots and apparel? Only 3% of apparel and 2% of shoes sold in the U.S. are made in the U.S. While there are procurement laws pertaining to the procurement of military apparel, a recent report from the Government Accounting Office (GAO) found that only 42% of uniforms ordered by the Department of Homeland Security (DHS) came from the U.S.

Of course, warfare in the 21st century is an increasingly technological battle. But only 23% of computers and electronic products sold in the U.S. are made in the U.S. More specifically, 75% of U.S. smartphones are imported from China, and only 5% of personal computers sold here are made here.

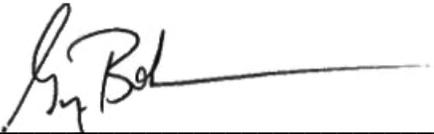
Closing the U.S. market to imported autos would open the door for other countries to use "economic security" arguments disguised as "national security" arguments to impose tariffs on U.S. products to protect their domestic companies against a host of U.S. manufactured exports and farm products. The bottom of this slippery slope is a giant step back in time, with countries ignoring established trade principles, raising barriers, and escalating trade tensions at the expense of American exports, manufacturing, and jobs.

Chamber Position

The Chamber opposes the imposition of a tariff on imported automobiles and parts for the following reasons:

- There is no threat to national security as envisioned in Section 232, which would justify the imposition of the proposed tariffs.
- U.S. automotive production capacity, investment, and jobs are growing, not shrinking.
- Tariffs on autos would undermine U.S. security by targeting some of our closest security allies and depressing the U.S. auto industry.
- Tariffs would undermine U.S. automotive leadership and innovation
- Section 232 tariffs on auto parts will cost U.S. jobs and would likely adversely impact the regional economy
- Tariffs, quotas, or other import restrictions would have a devastating impact on dealerships across the United States

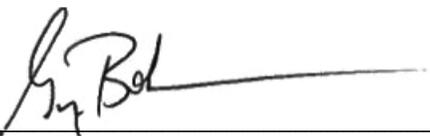
Approved by the Executive Committee



Gary Bolton, Chairman

Date: August 23, 2018

Approved by the Board of Directors



Gary Bolton, Chairman

Date: August 23, 2018

Recommended Action:

- 1) Notify our membership of this position
- 2) Notify the media of the Huntsville/Madison County Chamber of Commerce's position.
- 3) Encourage Chamber members to contact members of Congress and the Administration to express their opposition to the Tariff under consideration.