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Section 232 Auto Investigation

Background

On May 17, 2019, President Trump announced his Administration's determination that U.S. imports of automobiles and certain automotive parts threaten to impair U.S. national security. Under Sec. 232 of the Trade Expansion Act of 1962 (19 U.S.C. § 1862, as amended), this determination gives the President broad authority to respond to the threat, including potentially imposing unilateral import restrictions. The President is seeking a negotiated solution, instructing the U.S. Trade Representative (USTR) to reach agreements with Japan and the European Union (EU) to address the threat. The USTR is to report on its progress within 180 days.

The Trump Administration initiated its investigation on auto imports on May 23, 2018 (83 FR 24735). The Department of Commerce (Commerce), which has statutory responsibility for such investigations, submitted its report to the President on February 17, 2019, but it has not been made public. According to the President, it concluded that U.S. auto imports pose a national security threat because they affect "American-owned" producers' global competitiveness and research and development on which U.S. military superiority depends. The President's emphasis on U.S. ownership implies the Administration sees foreign-owned automakers operating in the United States as having fewer benefits to U.S. national security. Toyota and other Japanese-owned auto firms objected to this view, noting significant U.S. investments. According to data from the Bureau of Economic Analysis, Japanese firms have invested over $50 billion dollars in the U.S. auto sector, directly employing 170,000 workers.

The Section 232 investigation is a component of a broader Administration agenda related to U.S. trade and the auto industry, including: (1) expanding domestic auto manufacturing; (2) addressing bilateral trade deficits; and (3) reducing disparities in U.S. and trading partner tariff rates. At 2.5%, U.S. passenger auto tariffs are lower than some trading partners, including the EU, with auto tariffs of 10%. U.S. tariffs on light trucks, including pick-ups and sport utility vehicles, are much higher at 25%.

Commerce received more than 2,000 comments on the Section 232 investigation and held a public hearing in July 2018. Labor union groups generally supported the investigation. The U.S. motor vehicle industry has voiced strong opposition to potential tariffs and had a united position at the Commerce hearing. Several Members have voiced concern about the investigation and potential tariffs.

The U.S. Automotive Industry

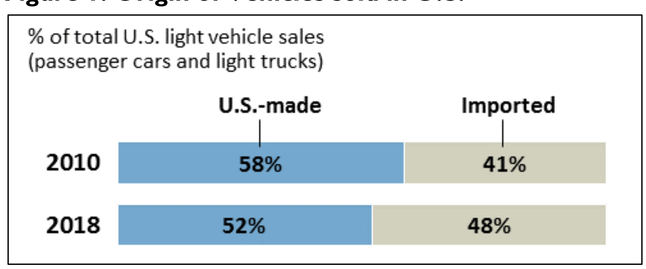
Integrated Global Supply Chain

Over the past 25 years, the global auto industry has almost doubled in size, driven by China's growth as a major auto producing and consuming nation, making and selling nearly 28 million vehicles in 2018. General Motors now sells more vehicles in China than in the United States. China's rise in vehicle and parts manufacturing has added a new, often inexpensive, source of parts that may compete with manufacturers in other countries. In 2018, more than 35 countries sold nearly $160 billion in auto parts in the United States.

Since the North American Free Trade Agreement (NAFTA) went into force, U.S. production growth has been relatively steady, except during recessions, rising from 9.7 million vehicles in 1992 to 11.3 million in 2018. At the same time, production in South Korea and Mexico also increased, while decreasing in two other major auto-producing countries, Japan and Germany. Major distinguishing factors in the U.S. market during this time include:

- an increase in the number of foreign-owned auto manufacturing plants in the United States from seven in 1992 to 17 in 2018;
- the growth of Mexico as a source of vehicles for U.S. sales from one million per year when the NAFTA entered into force in 1994 to four million in 2017;
- the doubling of U.S. vehicle exports in recent years to more than 2 million units in 2017; and,
- a change in the U.S. fleet composition with a growing U.S. consumer preference for light trucks over passenger cars: 65% of U.S. sales were light trucks in 2017, compared to 50% in 2012. (Some automakers are now discontinuing production of passenger cars.)

Figure 1. Origin of Vehicles sold in U.S.



Source: CRS analysis based on Ward's Automotive Database, and U.S. International Trade Administration import data.

U.S. vehicle sales are increasingly composed of imports (**Figure 1**), although more than half of imported vehicles were manufactured in Canada or Mexico with significant U.S. content, including engines, transmissions, and other components. Some assemblies, such as steering and braking systems, cross the border up to six times as plants in the NAFTA region add components. More than half of U.S. imports from Canada and Mexico are produced by General Motors, Ford, and Fiat-Chrysler.

Motor Vehicle Industry Employment and R&D

Motor vehicle assembly and parts manufacturing generate significant employment opportunities in almost every U.S.

state. Preliminary data from 2018 suggest employment has largely recovered from the 2008-2009 recession. U.S. vehicle assembly and parts manufacturing employed 997,334 workers in 2018, compared with 992,600 in 2007, according to the Bureau of Labor Statistics. About 60% is in the manufacture of parts and components.

Motor vehicle industry research and development (R&D) has grown and new technologies and robotics allow manufacturers to raise productivity and build more vehicles with fewer workers. The vehicle and parts industry spent $17 billion on R&D in 2015, compared to $12 billion in 2011, according to National Science Foundation surveys.

Potential Economic Impact

Auto tariffs could have significant effects on the U.S. economy, depending on their breadth and duration. U.S. motor vehicle and parts imports from the EU and Japan, the main targets of the newly mandated negotiations, totaled nearly $120 billion in 2018 or one-third of total U.S. auto and parts imports (**Figure 2**). Economic studies generally estimate auto tariffs would lower overall U.S. GDP relative to a baseline without the tariffs, though the magnitude varies depending on modeling techniques and assumptions. The IMF, for example, estimated a negative effect ranging from 0.6%-1% of U.S. GDP if tariffs applied to all U.S. auto and parts imports (this is a cumulative effect inclusive of Section 301 tariffs on $250 billion of Chinese imports).

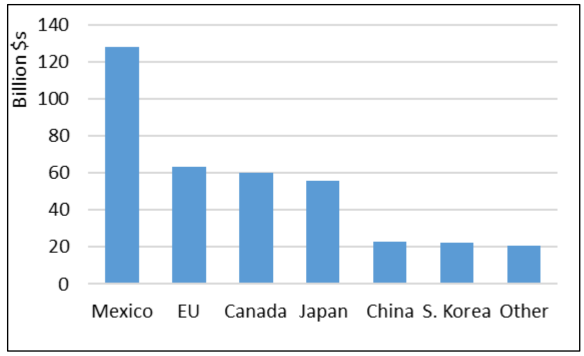
Economists generally argue that using tariffs to encourage domestic production can lead to an inefficient and less productive allocation of resources. The uncertainty created by the current and potential tariffs on autos and auto parts may also reduce investment. Ultimately, the tariffs could increase the price of motor vehicles sold in the United States, prompting some consumers to delay purchases or purchase used cars instead of new vehicles, and generating inflationary pressures. The Center for Automotive Research estimated that a 25% tariff applied to all vehicles sold domestically could raise the price of an average car sold in the United States by $4,400. The Peterson Institute for International Economics estimated similar price increases. The economic effects could be less significant if potential tariffs are used largely as short-term negotiating leverage.

Estimating the effect of Section 232 auto tariffs on U.S. auto production is complicated by the globally integrated nature of auto supply chains and the spillover effects from other recent tariff actions. Tariffs on assembled autos could make imported vehicles more expensive in the U.S. market, potentially increasing demand for and production of U.S.-made vehicles. Tariffs on auto parts, however, could counteract this effect by increasing the cost of imported inputs, leading to higher prices of U.S.-produced vehicles. U.S. producers already face cost increases resulting from Section 232 U.S. steel and aluminum tariffs and Section 301 duties on imports from China. Retaliatory tariffs could also make U.S.-produced autos less competitive in foreign markets, leading to a reduction in U.S. exports.

Relationship to Trade Negotiations

The Administration has stated it is using the threat of tariffs to create U.S. leverage for broader trade negotiations with the EU and Japan, and that tariffs would not be imposed while negotiations continue. Recently concluded negotiations with Mexico, Canada, and South Korea addressed auto imports, and the Administration appears to be excluding these countries from further Section 232 auto restrictions. Alongside the proposed U.S.-Mexico-Canada Agreement (USCMA) to replace NAFTA, the United States released side letters with Mexico and Canada that would exempt specified volumes of vehicle, light truck, and auto part imports from any potential Section 232 tariffs. The U.S.-South Korea FTA modifications included a delayed reduction of U.S. light truck tariffs and broader exemptions from South Korean safety certifications for U.S. auto exports.

Figure 2. U.S. Motor Vehicle and Parts Imports, 2018



Source: Bureau of Economic Analysis, International Transactions.

Issues for Congress

Multiple Members have raised concerns about the Section 232 auto investigation. Potential issues to consider include:

- **National security definition**. Many observers question the linkage between U.S. auto production and national security. Should statutory criteria be clarified to ensure investigations adhere to congressional intent?
- **Trade authority**. Proposed legislation would curtail the President's authority under Section 232. What are the tradeoffs between restricting the President's authority and expeditiously addressing national security concerns?
- **Economic impact**. Tariffs on U.S. imports could significantly increase costs for consumers and firms using imported parts. Retaliation may also occur. Do the potential benefits of the tariffs justify costs?
- **Foreign vs. U.S. Ownership.** How does the ownership structure of a firm operating in the United States affect its contribution to U.S. national security?
- **International trading system**. How do unilateral U.S. actions affect other countries' adherence to World Trade Organization commitments?
- **Trade negotiations**. How would the proposed USMCA affect U.S. auto production? Should the Administration be linking Section 232 national security action to broader trade negotiations?

For more information, see CRS Report R45249, *Section 232 Investigations: Overview and Issues for Congress*.

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