



SUBMITTED COMMENTS OF
AMERICAN INTERNATIONAL AUTOMOBILE DEALERS ASSOCIATION

RE: Section 232 Automobile and Automotive Parts Imports Investigation
Federal Register Docket Number: DOC-2018-0002

June 28, 2018

The Honorable Wilbur L. Ross

Secretary of Commerce

Via Electronic Submission

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On May 23, 2018, the Department of Commerce (“the Department”) initiated an investigation to determine the national security impact of imported automobiles, including cars, SUVs, vans and light trucks, and automotive parts. This investigation was initiated under Section 232 of the Trade Expansion Act of 1962, as amended, 19 U.S.C. § 1862; and posted to the Federal Register notice, 83 FR 24735 on May 30, 2018.

The Department stated it is particularly interested in comments and information directed to the criteria listed in § 705.4 of the National Security Industrial Base Regulations as they affect national security.

§ 705.4 Criteria for determining effect of imports on the national security.

(a) To determine the effect on the national security of the imports of the article under investigation, the Department shall consider the quantity of the article in question or other circumstances related to its import. With regard for the requirements of national security, the Department shall also consider the following:

- (1) Domestic production needed for projected national defense requirements;
- (2) The capacity of domestic industries to meet projected national defense requirements;
- (3) The existing and anticipated availabilities of human resources, products, raw materials, production equipment and facilities, and other supplies and services essential to the national defense;
- (4) The growth requirements of domestic industries to meet national defense requirements and the supplies and services including the investment, exploration and development necessary to assure such growth; and
- (5) Any other relevant factors.

(b) In recognition of the close relation between the strength of our national economy and the capacity of the United States to meet national security requirements, the Department shall also, with regard for the quantity, availability, character and uses of the imported article under investigation, consider the following:

- (1) The impact of foreign competition on the economic welfare of any domestic industry essential to our national security;

- (2) The displacement of any domestic products causing substantial unemployment, decrease in the revenues of government, loss of investment or specialized skills and productive capacity, or other serious effects; and
- (3) Any other relevant factors that are causing or will cause a weakening of our national economy.

This statement is submitted by the American International Automobile Dealers Association¹ (“AIADA”) in response to this investigation, and in strong opposition to the position that international nameplate automobiles are a national security risk. Established in 1970, AIADA is and continues to be the only association whose sole purpose is to represent America’s international nameplate automobile franchises that sell and service vehicles in the United States. Our mission is to increase awareness in Washington, D.C., and around the country of our members’ contributions to their communities and the American economy, and to preserve and promote a fair market for international brand automobiles in the United States.

AIADA’s comments will focus on the economic impact that international nameplate dealers have in the United States. Additionally, these comments will detail the economic harm of price increases resulting from 25 percent tariffs should automobiles and automotive parts be found to be a national security threat.

Usage of Section 232 investigations has been rare since the Department of Commerce was first granted authority to use national security as a means in 1980. The announced Section 232 Automobile and Automotive Parts Imports Investigation is only the seventeenth to take place, with the recent steel and aluminum investigation being the only one to result in national security tariffs.

Jobs Are National Security

Unemployment in the United States has declined steadily since the Administration policies of President Donald J. Trump have begun to take effect. From deregulation to tax reform legislation, the Administration has built a healthy environment for businesses, large and small, to thrive. Maintaining high employment and an atmosphere for business investment is crucial to creating a strong economy that is vital to national security. AIADA’s international nameplate dealers see new opportunities to grow and thrive in this economy, but worry that the possible

¹ AIADA represents America’s international nameplate automobile franchises that sell and service the following brands: Acura, Aston Martin, Audi, Bentley, BMW, Ferrari, Genesis, Honda, Hyundai, Infiniti, Jaguar, Kia, Land Rover, Lexus, Maserati, Mazda, Mercedes, MINI, Mitsubishi, Nissan, Porsche, Rolls Royce, Smart, Subaru, Toyota, Volkswagen, and Volvo. These retailers have a positive economic impact both nationally and in the local communities they serve, providing more than 550,000 American jobs. Visit AIADA online at www.aiada.org.

25 percent tariffs will negatively affect their ability to operate and provide work for thousands of Americans.

Across the United States and in communities large and small, Americans are employed in the international nameplate automobile industry, including the 577,000 who are employed at 9,600 international nameplate automobile franchises. Many more Americans benefit from being able to purchase quality automotive products at affordable prices that result from the current integrated supply chain. AIADA highlights its economic impact along with the Association of Global Automakers in its annual report, *Here for America: International Automakers and Dealers in America*².

International nameplate franchises, with their annual payroll of \$32 billion, also account for an additional 527,000 indirect jobs. In 2016, those same franchises sold 8.4 million vehicles, or 59 percent of total U.S. market share. International nameplate auto dealers did not stop there. In 2016 they spent an overwhelming \$4.8 billion on advertising and sold \$54 billion in parts and services. International nameplate auto dealers are a large, visible, and vital cog in our nation's economy, and they rely on the competitive pricing of their products to maintain and grow their businesses.

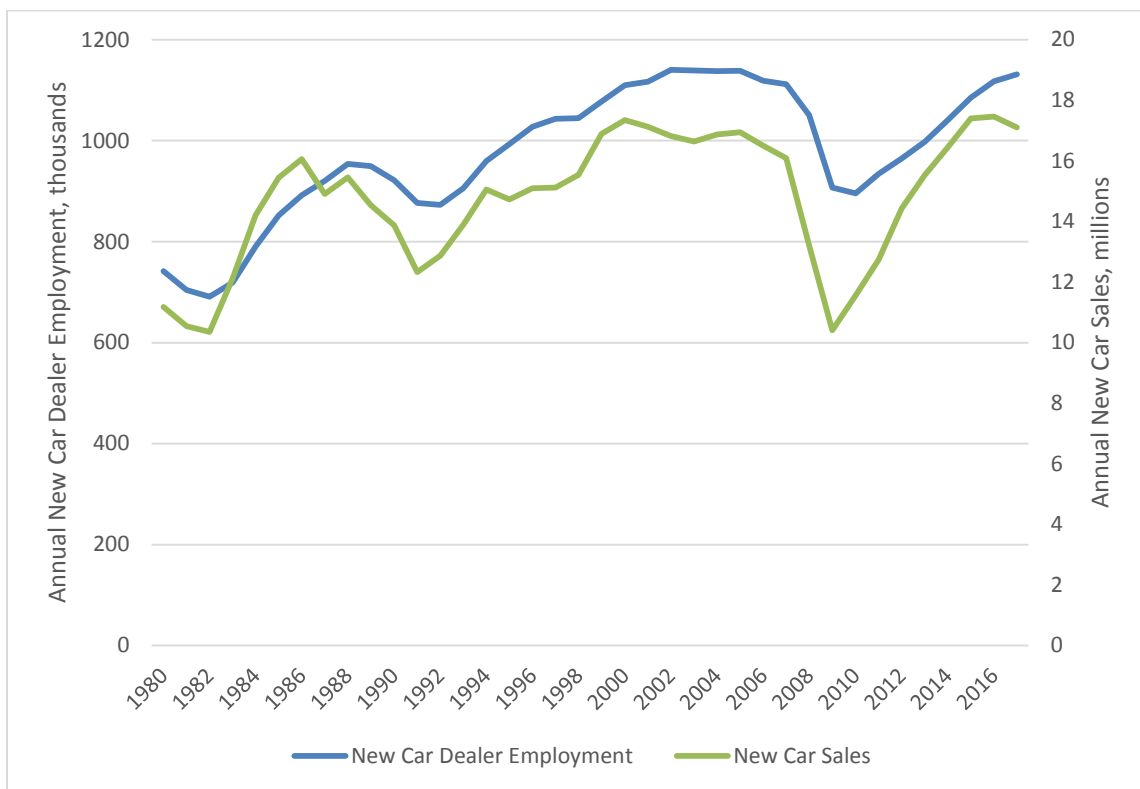
AIADA's dealer members represent the retail side of the international auto manufacturing industry, which has invested heavily in the United States. International automakers have spent \$75 billion in U.S. operations and have more than doubled their production in the U.S. over the past 15 years, producing 47 percent of all vehicles built here in America. In 2016 alone, 5.5 million vehicles were built by the American employees of international nameplate manufacturers in the U.S., of which 925,000 were exported to over 140 countries worldwide. International automakers directly and indirectly employ 1.29 million Americans and exports of international autos alone supported 265,000 US jobs. In fact, according to data from the U.S. Department of Commerce, in 2017, the BMW Manufacturing factory in South Carolina was the leading U.S. automotive exporter by value. AIADA highlights all this information to ensure that the department is aware of the economic impact of international auto dealers and automakers in every state and every community in the United States.

As this data shows, over half a million Americans stand to be adversely impacted should 25 percent tariffs be put into place on imported vehicles and vehicle parts. A recent study by the

² AIADA, International Automakers and Dealers in America,
http://www.aiada.org/sites/default/files/HereForAmerica2017_web3.pdf

Peterson Institute for International Economics³ (PIIE) found that if those tariffs go into effect, there would be a total of 195,000 American jobs lost. Additionally, should countries then retaliate in-kind and place tariffs on the U.S. the job loss would more than triple to an astounding 624,000.

Another study by LMC Automotive⁴ on the effects of a 25 percent tariff on automobile sales found similarly that sales of new cars and trucks will also be impacted. Assuming automakers and dealers absorb at least half the cost of a possible 25 percent tariff, these tariffs would lead to a loss of 1 million annual unit sales. If the full burden of the tariff is passed on to the consumer that jumps to a loss of 2 million units per year, more than 10 percent of annual U.S. sales. As you can see from the chart, there is a direct correlation between auto sales and auto dealership employment. Therefore, it is a high probability that a loss of sales would result in a corresponding loss of jobs at auto dealerships across the country.



³ Peterson Institute for International Economics, Trump's Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus, <https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and>

⁴ Bloomberg, Trump Tariffs May Cost Carmakers at Least 1 Million Annual Sales, <https://www.bloomberg.com/news/articles/2018-06-12/trump-tariffs-may-cost-carmakers-at-least-1-million-annual-sales>

⁵ NADA, National Automobile Dealers Association, <https://www.nada.org/nadadata/>

Global trade is an engine of economic growth and is a proven strategy for building global prosperity. Open trade and investment policies play a vital role in allowing international nameplate dealers, many of whom operate second and third generation family businesses, to compete on a level playing field in cities and towns across the U.S. These policies provide consumers with competitive pricing and service on some of the most popular vehicles on American roads today.

Economic Security is National Security

Tariffs that take the form of taxes on the consumers would significantly impact new car sales through higher prices, reduced demand, restricted choice, and new obstacles for customers seeking auto loans. Reasonably priced new cars keep American families safe on our roads, allowing them to travel to and from school, work, and community events. When Americans are priced out of safe, affordable transportation, those who least can afford it will be the first to suffer.

According to a recent study by the Tax Foundation⁶, a new 25 percent tariff on automobiles and auto parts would reduce after-tax incomes for all taxpayers by 0.47 percent in 2018 while making the distribution of the tax burden less progressive. These tariffs would fall harder on those taxpayers in the bottom 80 percent, reducing their after-tax income by 0.49 percent, and by 0.45 percent for the top 20 percent. The relief provided to families through the Tax Cuts and Jobs Act would therefore be greatly reduced and in fact these tariffs would amount to a \$73 billion tax increase on American consumers.

Following the purchase of a house, the automobile is often the consumer's largest investment. Statista and the U.S. Department of Transportation estimated that there were nearly 222 million licensed drivers in the U.S. that drove over 268 million registered passenger vehicles in 2016. Increasing the cost of an automobile will affect nearly all of them, and a possible 25 percent tariff will increase the cost every single vehicle sold in the United States. In addition to the increase in the cost of the vehicle, tariffs would also cause the cost of individual vehicle parts to rise, thus increasing the cost for consumers to service and repair their vehicles. Simply "buying American" is not a solution. There is not one vehicle sold in American dealerships, domestic or international nameplate, that is 100 percent American produced.

Affordability concerns are not new to the auto industry. The economic logic most budget conscious consumers follow when financing an automobile is the 20/4/10 ratio. That means, when buying a new vehicle a consumer should put down at least 20 percent, finance the car for

⁶ Tax Foundation, Automobile Tariffs Would Offset Half the TCJA Gains for Low-income Households
<https://taxfoundation.org/automobile-tariffs-2018/>

no more than 4 years, and keep the monthly payment at or below 10 percent of their pre-tax monthly income. Consequently, when the cost of new vehicle rises by even the smallest amount, via regulation, tariffs, or taxes, auto dealers become concerned that those new costs will reduce sales.

As technology has advanced, regulatory burdens of manufacturing have increased, and with time, the cost of vehicles has increased. In March of 2018, Kelley Blue Book⁷ reported the estimated average transaction price (ATP) for light vehicles in the United States was \$35,285. This cost is an increase of \$703, up 2 percent, from March 2017. At the same time, household income has remained fairly stagnant. Cox Automotive⁸ found that while the current average price of a new car has increased by 35 percent in the past 20 years, household income has only increased by 3 percent. New tariffs would make an already bad situation worse.

The Trade Partnership Worldwide, LLC completed a study⁹ examining the impacts of a possible 25 percent tariff imposed on U.S. imports from all countries of automobiles, SUVs, light trucks, other vehicles and parts. The study found that a 25 percent tariff would add about \$6,400 to the price of an imported \$30,000 car.

Additionally, a topical study¹⁰ completed by the Council on Foreign Relations analyzed the effects of the 25 percent steel tariff on the auto industry. The analysis estimates:

...an average car requires roughly 1.2 tons of steel to build. Given that tariffs tend to increase import prices (which determine domestic prices) by at least as much as the tariff, we calculate that a 25 percent steel tariff will increase the price of new passenger vehicles manufactured in the United States between 0.5 and 0.8 percent.

Now, based on calculations for the sensitivity of auto sales to price, we estimate that such price rises of American-made cars would translate into a decline of between 1.6 and 3.6 percent in global sales.

⁷ Since 1926, Kelley Blue Book has been one of the best-known names in the auto industry. Today, KBB.com extends the tradition, with trusted values and a reputation for innovation, including resources to help you research, price and shop for the car you've been looking for.

⁸ Cox Automotive is a leading provider of products and services spanning the automotive ecosystem. No matter the stage of the auto buying or selling process, we have a solution for clients of any size.

⁹ Trade Partnership Worldwide, LLC, An Accident Waiting to Happen? The Estimated Impacts of Tariffs on Motor Vehicles and Parts, <http://tradepartnership.com/reports/an-accident-waiting-to-happen-the-estimated-impacts-of-tariffs-on-motor-vehicles-and-parts/>

¹⁰ Council on Foreign Relations, Trump Steel Tariffs Could Kill Up to 40,000 Auto Jobs, Equal to Nearly One-Third of Steel Workforce, <https://www.cfr.org/blog/trump-steel-tariffs-could-kill-40000-auto-jobs-equal-nearly-one-third-steel-workforce>

The historical relationship between U.S. auto sales and employment is tight.... Based on this relationship, we would expect declining sales to result in auto-industry job losses ranging from 18,000 to 40,000 by the end of 2019.

Those numbers would cause a dramatic downstream impact on not just dealership operations, but the American economy as a whole.

Conclusion

AIADA respectfully disagrees with the position that international automobiles and auto parts are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. In fact, foreign manufacturer investment in our communities and workers has strengthened our economy and greatly broadened consumer choice.

The automobile industry is so globally integrated that many automobiles traditionally thought of as "foreign" brands are actually built right here in the U.S. and with more U.S. parts than the traditional American brands. The automotive industry in the U.S. is constantly evolving and international nameplate automobile manufacturers and dealers are designing, building, and selling more vehicles across the U.S. than ever before. In the process, they are redefining the meaning of an "American" car. International nameplate dealers are growing their investment in the American economy and communities in a variety of ways and today provide the majority of America's auto retailing jobs and vehicles for American consumers, selling 59 percent of the new cars purchased by Americans in 2016.

AIADA and its 9,600 American auto dealers strongly support a pro-growth economic agenda, and believe it can be accomplished with a positive trade message, not the threat of tariffs and taxes. As the U.S. Chamber of Commerce found, America drives the world economy, but outside our borders are markets that represent 80 percent of the world's purchasing power, 92 percent of its economic growth, and 95 percent of its consumers.

We don't need more tariffs. We need more trade agreements. Agreements with our trading partners ensure that trade is fair, regulated, and gives American businesses, large and small, the framework they need to grow and thrive in a global economy. Trade keeps our economy open, dynamic, and competitive, and helps ensure that America continues to be the best place in the world to do business.

Public Hearing Participation Request

Having submitted the above written comments in accordance with *Federal Register* notice, 83 FR 24735 (May 30, 2018), we respectfully request the opportunity to testify at the public

hearings scheduled for July 19-20. Oral comments would be made on behalf of the 9,600 American International Automobile Dealers Association members, by AIADA President and CEO, Cody L. Lusk. He may be reached at 703-519-7800, LuskC@aiada.org. Thank you for your assistance in this matter and we would be glad to further assist in any way.