

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 Section 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. Some analysts debate, however, whether the Administration's authority under this investigation has now expired, given statutory timelines for action. The President has instructed the U.S. Trade Representative (USTR) to negotiate agreements with Japan, the European Union (EU), and others, as needed, to address U.S. concerns.

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, the report 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 manufacturers objected to this view, noting significant U.S. investments. According to data from the Bureau of Economic Analysis, foreign firms have invested over \$114 billion in the U.S. auto sector, directly employing 435,000 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 public comments and held a public hearing as it assessed the security threat raised by imported autos and parts. Labor union groups generally supported the investigation. The U.S. motor vehicle industry has voiced strong and united opposition to potential tariffs, and several Members of Congress have voiced concerns.

The U.S. Automotive Industry

Integrated Global Supply Chain

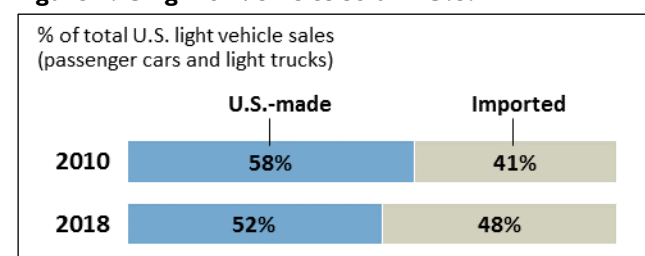
Over the past 25 years, the global auto industry has almost doubled in size, driven by China's growth as a major auto

producing and consuming nation, making and selling 25 million vehicles in 2019. General Motors 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 18 in 2019;
- the growth of Mexico as a source of vehicles for U.S. sales from 1 million per year when the NAFTA entered into force in 1994 to 4 million in 2018;
- the doubling of U.S. vehicle exports in recent years to nearly 2 million units in 2018; and,
- a change in the U.S. fleet composition with a growing U.S. consumer preference for light trucks over passenger cars: 69% of U.S. sales were light trucks in 2018, 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 throughout North America 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 991,400 workers in 2019, compared with 994,200 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, the Administration's current focus, totaled more than \$63 billion in 2018 and was the second largest source of such imports after Mexico (**Figure 2**). Economic studies generally estimate auto tariffs would lower overall U.S. GDP relative to a baseline without the tariffs, though the magnitude depends on modeling and assumptions.

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.

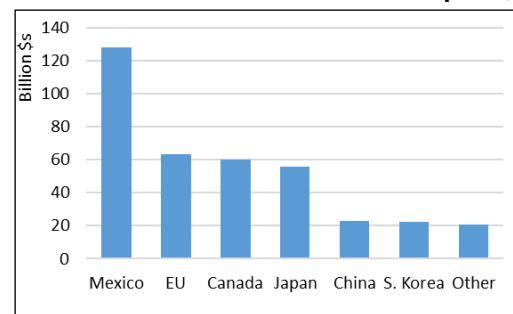
Estimating the effect of Section 232 auto tariffs on U.S. auto production is complicated by the globally integrated nature of auto supply chains and the spillover effects from other recent tariff actions. Tariffs on assembled autos could make imported vehicles more expensive in the U.S. market, potentially 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, such as with the EU, and that tariffs would not be imposed while negotiations continue. Due to the conclusion of negotiations with Mexico, Canada, Japan, and South Korea, the

Administration appears to be excluding these countries from future Section 232 auto restrictions, explicitly in the case of Canada and Mexico. Alongside the new U.S.-Mexico-Canada Agreement (USMCA) that replaces 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. The "stage one" agreement with Japan did not cover autos, but the Administration has stated it has no intent at this time to move forward with additional auto tariffs on Japan.

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



Source: Bureau of Economic Analysis, International Transactions.

Issues for Congress

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

- **Transparency.** The Administration has not complied with congressional requests and statutory requirements to release the auto investigation report, citing executive privilege due to ongoing negotiations, presumably with the EU. What impact does the lack of transparency have on congressional oversight?
- **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? Do existing statutory time limits on Section 232 authority require modification or clarification?
- **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?
- **Economic impact.** Tariffs could significantly increase costs for consumers and firms and retaliation could lead to export declines. Do potential benefits justify costs?
- **International trading system.** How do unilateral U.S. actions affect other countries' adherence to World Trade Organization commitments or their willingness to enter trade negotiations with the United States?

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

Rachel F. Fefer, Coordinator, Analyst in International Trade and Finance

Bill Canis, Specialist in Industrial Organization and Business

Brock R. Williams, Analyst in International Trade and Finance

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