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Section 232 Auto Investigation

Background

On May 23, 2018, the Trump Administration initiated a Section 232 investigation into the imports of motor vehicles and automotive parts (83 FR 24735) to determine if those imports threaten to impair U.S. national security. The Department of Commerce (Commerce) in part bases its investigation on an increase of imported passenger vehicles' share of domestic sales (from 32% of U.S. vehicle sales to 48% over the past 20 years). U.S. code does not define national security, giving Commerce latitude in the investigation's scope.

The Section 232 investigation is a component of a broader agenda related to U.S. trade and the auto industry including: (1) expanding domestic auto manufacturing and domestic content in autos; (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 European Union (EU), with auto tariffs of 10%. U.S. tariffs on light trucks, including pick-ups and sport utility vehicles, are much higher at 25%. President Trump has stated a desire to place a 25% tariff on auto imports. Several Members have voiced concern about the investigation and potential tariffs. In July, a bipartisan group of 149 Representatives sent a letter to Commerce seeking to end the investigation. Pending legislation could place some limitations on current presidential authorities under Section 232.

Commerce received more than 2,000 comments on the Section 232 investigation and held a public hearing on July 19. Labor union groups generally support the investigation. The U.S. motor vehicle industry has voiced strong opposition to tariffs and had a united position at the Commerce hearing. While originally announcing plans to conclude the investigation in August, Secretary Wilbur Ross later stated that the volume and detail of the submitted comments would preclude the Administration from making a determination until after the November 2018 elections.

The U.S. Automotive Industry

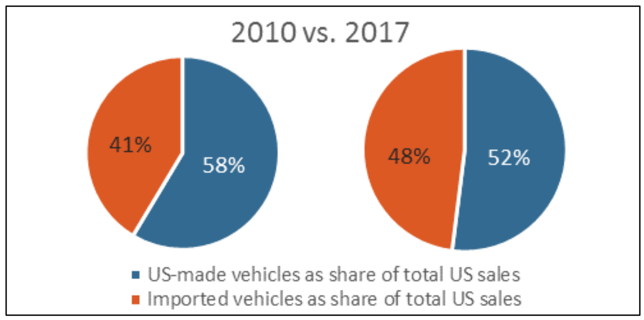
Integrated Global Supply Chain

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 more than 28 million vehicles in 2016. 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 2017, 31 countries sold over $100 million 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 12.2 million in 2016. At the same time, South Korea and Mexico also increased production, while it decreased 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. (As a result, some automakers are discontinuing production of traditional passenger cars.)

Figure 1. Origin of U.S. Vehicle Sales Passenger Cars and Light Trucks



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. Employment has not fully recovered from the 2008-2009 recession. U.S. vehicle assembly and parts manufacturing employed 969,228 workers in 2017, compared with 992,600 in 2007, according to the Bureau of Labor Statistics. About 60% is in 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

Tariffs on U.S. auto and auto parts imports could have significant effects on the U.S. economy, depending on how broadly and how long they are in effect. To date, the Trump Administration has imposed tariffs on approximately $95 billion of U.S. imports of steel, aluminum and various Chinese products. Additional tariffs on U.S. motor vehicle and parts imports, which totaled $361 billion in 2017 according to the U.S. Census Bureau, would increase the share of U.S. goods imports affected by the Administration's tariff actions from 4% to nearly 20%.

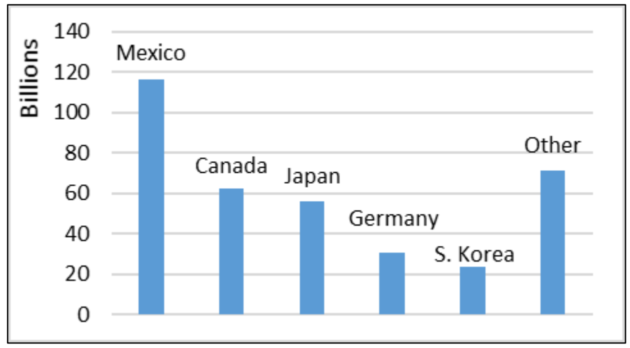
Economists generally argue that using tariffs to encourage domestic production can lead to an inefficient and less productive allocation of resources. The uncertainty created by the current and potential tariffs on autos and auto parts may also reduce investment. Ultimately, the tariffs could increase 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. These would be on top of any price increases from the steel or aluminum tariffs. The economic side-effects could be minimized if the tariffs are being used in the short-term as negotiating leverage.

Estimating the effect of tariffs on U.S. auto production is complicated by the globally integrated nature of automotive supply chains. 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. How big an effect would depend on the availability of domestic substitutes for foreign auto parts. Higher input costs, as well as retaliatory tariffs imposed by U.S. trading partners, such as the EU, could also make U.S.-produced autos less competitive in foreign markets, leading to a reduction in U.S. exports. Depending on the types of non-vehicular products targeted, retaliatory tariffs could also lead to export declines in other U.S. industries.

Relationship to Trade Negotiations

Autos and parts are the top export category for a number of significant U.S. trading partners and the Administration may be using the threat of tariffs on these products to create U.S. leverage for ongoing and future negotiations (**Figure 2**). For example, 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 Administration stated it would not consider imposing auto tariffs on the EU while recently announced, broader trade negotiations are underway. Similarly, the Administration agreed to not impose auto tariffs on Japan after announcing on September 26, 2018, that the two parties agreed to begin trade negotiations. Autos were part of the recent U.S.-South Korea free trade agreement modifications, but these did not include an exemption from potential Section 232 tariffs.

Figure 2. U.S. Motor Vehicle and Parts Imports, 2017



Source: Census Bureau, FT-900.

Issues for Congress

Multiple Members, including the chairs of the House Ways and Means and Senate Finance Committees, have raised concerns about the Section 232 auto investigation. Some issues Congress may consider in this debate include:

- **National security definition**. Many observers question the linkage between U.S. auto production and national security. Does the current investigation adhere to statutory criteria and should those criteria be changed?
- **Trade authority**. Section 232 gives the President broad authority to restrict U.S. imports. Legislation has been introduced to curtail that authority (e.g., S. 3329, S. 3013 and H.R. 6337). What are the tradeoffs between restricting the President's authority and expeditiously addressing national security concerns?
- **Economic impact**. Tariffs on U.S. auto and parts imports could significantly increase costs for U.S. consumers and U.S. auto firms using imported parts and are generally opposed by the domestic industry they are designed to assist. Retaliation may also occur. Do economic benefits of the tariffs justify costs?
- **International trading system**. How do unilateral U.S. actions affect other countries' adherence to World Trade Organization commitments?
- **NAFTA renegotiation**. How would the proposed USMCA and its modifications to the NAFTA auto rules of origin affect U.S. auto production and the Administration's interest in a potential Section 232 auto tariff? Should the Administration lift the Section 232 tariffs currently on imports of Mexican and Canadian steel and aluminum now that USMCA negotiations are complete?

For more information on Section 232 and recent use by the Trump Administration on imported steel and aluminum, see CRS In Focus IF10667, *Section 232 of the Trade Expansion Act of 1962*, and CRS Report R45249, *Section 232 Investigations: Overview and Issues for Congress*.

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