



JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION, INC.

Section 232 Automobile and Automotive Parts Imports Investigation

U.S. Department of Commerce

Via Federal eRulemaking Portal

June 29, 2018

To Whom It May Concern:

The Japan Automobile Manufacturers Association (“JAMA”) respectfully submits these comments in response to the May 23, 2018 announcement by the Secretary of Commerce of an investigation under Section 232 of the Trade Expansion Act of 1962 (the “Section 232 investigation”) regarding whether imports of automobiles and automotive parts into the United States threaten to impair the national security as defined in Section 232.<sup>1</sup>

#### **INTRODUCTION AND BACKGROUND**

JAMA is a nonprofit industry association that comprises Japan’s fourteen manufacturers of passenger cars, trucks, buses and motorcycles.

JAMA members are proud to play an important role in the mutually beneficial relationship between the Japanese and U.S. automotive industries. Japanese-brand automakers have been manufacturing vehicles in the United States since 1982. JAMA members produced nearly 3.8 million vehicles in the United States and directly employ over 92,000 U.S. workers, a more than eight-fold increase over the last 30 years. Further, Japanese-brand automakers support more than 1.5 million U.S. jobs when spin-off and intermediate (e.g., supplier) jobs are

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<sup>1</sup> See Notice of Request for Public Comments and Public Hearings on Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts, 83 Fed. Reg. 24735 (May 30, 2018).

added to direct and dealer-network employment figures.<sup>2</sup> Many of those U.S. workers fill highly-skilled jobs with premium wages and benefit packages. JAMA members provide the career development and skills-development opportunities needed to support these careers, and they partner with educational institutions to nurture local advanced manufacturing talent through workforce development initiatives across the country. Japanese-brand automakers now operate 24 manufacturing plants and 44 R&D and design centers in 19 states, with a cumulative U.S. manufacturing investment of over \$48.3 billion. Further, JAMA members purchased a cumulative total of \$70.4 billion in U.S.-made parts in 2017 alone. JAMA members *exported* over 420,000 vehicles from their U.S. plants in 2017. JAMA has attached reference charts showing the growth in Japanese-brand automakers' U.S. direct employment (Exhibit A); increased U.S. production and decrease in vehicle exports from Japan to the United States (Exhibit B); U.S.-made parts purchases (Exhibit C); and the percentage increase in U.S. manufacturing employment by JAMA members compared to the U.S. manufacturing sector overall (Exhibit D).

## DISCUSSION

JAMA has critical concerns regarding the Section 232 investigation and the threat of tariffs on imports of automotive goods that it implies. To start, we believe that Section 232 tariffs on imported automobiles and automotive parts would have a serious negative impact on U.S. consumers and workers, the U.S. automotive sector, and the U.S. economy, and that imposing such tariffs therefore would be unreasonable. Further, the very bases of the Section 232 investigation are wrong. Imported vehicles do not threaten the United States national

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<sup>2</sup> See Thomas J. Prusa, *The Contribution of the Japanese-Brand Automotive Industry to the United States Economy*, (available at <http://www.jama.org/the-contribution-of-the-japanese-branded-automotive-industry-to-the-united-states-economy-2015-update/>) (July 12, 2016) (accessed June 28, 2018).

security. Rather, they increase the options for users' diversified needs with regard to vehicle supply while creating new demand in the market, and they have contributed to the sustainable growth of the U.S. automobile industry including vehicle dealerships. We address each consideration in turn.

**I. SECTION 232 TARIFFS WOULD HAVE A SERIOUS NEGATIVE IMPACT ON THE U.S. ECONOMY.**

Imposing tariffs on imported automobiles and automotive parts ultimately would harm the U.S. economy far more than help it. A number of considerations support this conclusion. We address just a few here.

The tariffs on vehicle imports alone would increase the average price of cars generally, while diminishing consumer choice. This represents harm to all U.S. consumers including families and companies that use automobiles in or for their business operations. A study by the National Taxpayers Union Foundation estimates that prices for cars *built in the United States* could increase by an average of at least \$1,262 per vehicle<sup>3</sup> and the average price of imported cars would increase by \$4,205 per vehicle.<sup>4</sup> Yet another study estimates that the price of an imported \$30,000 car would increase by about \$6,400.<sup>5</sup>

JAMA notes that all automakers' manufacturing operations in the United States depend on global supply chains, which means that tariffs on imported automotive parts will have a negative impact on the entire U.S. automotive industry. Tariffs would also increase the costs of automotive service and repair. A study by the Trade Partnership, utilizing the same

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<sup>3</sup> See Bryan Riley, National Taxpayers Union Foundation, "*Trump's Car Tax Would Boost Average New Car and Truck Prices by \$1,262 to \$5,089*" (available at <https://www.ntu.org/foundation/detail/trumps-car-tax-would-boost-average-new-car-and-truck-prices-by-1262-to-5809>) (May 30, 2018) (accessed Jun. 5, 2018).

<sup>4</sup> *Id.*

<sup>5</sup> See Dr. Joseph Francois, Laura M. Baughman, and Daniel Anthony, *Policy Brief: The Estimated Impacts of Tariffs on Motor Vehicles and Parts*, Trade Partnership Worldwide LLC (available at <http://www.tradepartnership.com>) (May 29, 2018) (accessed Jun. 5, 2018).

economic model used by the Commerce Department to support its proposed tariff remedies in the steel Section 232 investigation, provides important guidance in this regard.<sup>6</sup> In the short term, “producers have limited ability to ramp up U.S. production to replace imports and limited ability to change sourcing patterns away from well-established cross-border supply chains.”<sup>7</sup>

Additionally, for vehicles produced in U.S. plants, the increased cost attributable to tariffs on imported component parts will increase the cost of the finished vehicles. As one result, U.S. consumers will pay more for domestically-produced vehicles, as well as imported vehicles. Increased production costs would undercut the global competitiveness of vehicles produced in the United States, thereby also decreasing demand for U.S.-made vehicles overseas, thus hurting U.S. automobile exporters, which includes all major auto companies that manufacture in the United States. This could have an immediate effect of impeding the production of vehicles at all automobile manufacturing facilities *in the United States*.

Moreover, imposing tariffs on imported automobiles and automotive parts would hurt the overall U.S. economy. Among other things, tariffs would increase the price of new vehicles, which would lead to a decrease in automobile demand. This, in turn, would impact not only employment at automobile manufacturers, but also automobile dealerships. Furthermore, these effects could make it impossible for automobile manufacturers to maintain their dealer and service networks, which could cause a further decrease in automobile production and R&D activity. A recent study by the Peterson Institute for International Economics (“PIIE”) estimates that the proposed tariffs could cause up to 195,000 U.S. workers to lose their jobs.<sup>8</sup> These consequences would be further compounded if other countries impose

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<sup>6</sup> *Id.* at 2.

<sup>7</sup> *Id.* at 3.

<sup>8</sup> See Sherman Robinson, et al., Peterson Institute for International Economics, “*Trump’s Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus*” (available at <https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and>) (May 31, 2018) (accessed Jun. 5, 2018).

tariffs on U.S. exports in response to any new U.S. Section 232 tariffs. Indeed, the PIIIE study states that, if other countries respond in kind to U.S. automotive tariffs, about 624,000 U.S. jobs could be lost.<sup>9</sup>

Finally, imposing tariffs on imported automobiles and automotive parts would disrupt the multilateral trading system that is based on WTO rules. Any trade actions should be consistent with WTO obligations. JAMA believes that free and fair trade and a competitive climate in line with global rules benefit not only consumers in the United States but also consumers who purchase U.S.-made vehicles throughout the world.

## **II. THE BASES FOR THE SECTION 232 INVESTIGATION ARE WRONG.**

The Department of Commerce's May 23, 2018 announcement suggests two related bases for the Section 232 investigation. First, the announcement states that the import of automotive products may implicate national security by weakening motor vehicle manufacturing in the United States. Second, the announcement suggests that increased foreign automotive imports into the United States are driving down U.S. worker employment. Both bases are incorrect.

### **A. Vehicles Imported From Japan Do Not Threaten U.S. National Security.**

A key premise of the Department's investigation is that importing automotive products into the United States may implicate national security issues by weakening U.S. motor vehicle manufacturing. That premise is incorrect for at least two important reasons.

First, rather than threatening U.S. national security, imported vehicles increase consumer choice and create new demand in the market, thereby contributing to the sustainable growth of the U.S. automobile industry including vehicle dealerships. Massive investments are required for vehicle production and large-scale vehicle manufacturing, which cannot be launched without dealer and servicing networks. If the United States had imposed high tariffs

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<sup>9</sup> *Id.*

which are equivalent to import restrictions in the past, vehicle manufacturing and R&D operations could not have been established by foreign automakers in the United States.

On the other hand, competition with foreign products results in engineering innovation by companies, industry, and countries, and it serves as a driving force for further research and development. No auto manufacturer in the world can procure all the components domestically in each country in which it has production facilities due to the variety of vehicle parts characteristics and the scale of procurement. Every auto manufacturer in the world can and does produce globally competitive automobiles using imported auto parts. Achieving great technological progress in automobile design and production requires dedicated, cooperative efforts and collaboration among companies, industry, and countries worldwide.

Second, with respect to Japanese-brand automakers specifically, today, they have made lasting and significantly positive contributions to the U.S. motor vehicle manufacturing industry and to U.S. manufacturing in general, including as to research, development, and workforce development. Again, JAMA data shows that Japanese-brand automakers have cumulatively invested over \$48 billion in U.S. manufacturing facilities through 2017, and also purchased more than \$70 billion in U.S.-made parts in 2017. Meanwhile, Japanese vehicle imports into the United States have decreased over time. These statistics demonstrate a strong and enduring commitment to producing vehicles in the United States, supporting U.S. economic vitality and growth.

Moreover, the investment in U.S.-based R&D and design by JAMA members has strengthened the U.S. automotive industry as a strategic industry. JAMA members maintain R&D and design facilities in Arizona, California, Colorado, Indiana, Massachusetts, Michigan, New York, North Carolina, Ohio, Virginia, and West Virginia.

Indeed, technology developed by Japanese-brand automakers in the U.S. has contributed to U.S. technological leadership. JAMA members partner with U.S.-based

automakers and companies across sectors to tackle the challenges of the future by researching and developing alternative-powered vehicles, autonomous vehicles, and other advanced automotive technologies. JAMA members also support and collaborate with American universities on various areas of research.

Foreign Direct Investment (“FDI”) by the automobile manufacturing industry creates jobs that encompass a wide range of different characteristics, both in direct vehicle manufacturing and in the development of advanced technology. The extent to which FDI supports and strengthens the United States’ manufacturing base and overall economy is especially evident in the case of Japanese investment in the United States. Through their U.S. investments, JAMA members have educated and employed U.S. workers, enhanced product quality, and spurred manufacturing innovation in the U.S. automotive sector. These efforts also have strengthened related sectors, such as the steel, aluminum, and other sectors, by supporting local suppliers and other intermediate operations.

In its February 2015 Policy Brief, “Japanese Investment in the United States: Superior Performance, Increasing Integration,” Theodore Moran and Lindsay Oldenski of the Peterson Institute for International Economics (“PIIE”) reviewed the history of Japanese multinationals’ FDI in the United States.<sup>10</sup> The authors examined just how that FDI had affected U.S. wages and benefits, sales, value added, R&D, and exports and imports. The PIIE authors found that Japanese multinationals are “a particularly dynamic component of the US economy.” They highlighted the following positive factors:

- Higher “intensity” of R&D than other foreign firms in the United States;
- Superior economic performance;

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<sup>10</sup> See Theodore H. Moran & Lindsay Oldenski, Peterson Institute for International Economics, “*Japanese Investment in the United States: Superior Performance, Increasing Integration*” (Feb. 2015) (available at <https://piie.com/publications/pb/pb15-3.pdf>) (accessed Jun. 18, 2018).

- Deeper integration with local suppliers;
- Higher average wages as compared to other US workers; and
- Increased “spillover” effects on U.S. productivity, as measured by, among other datasets, patent citations.

The PIIE authors found that Japanese-brand automobile manufacturers “pulled their traditional supplier operations in the United States to invest alongside their final assembly operations.”<sup>11</sup> JAMA notes that this “domestication” effect has been further deepened with the transfer of major engine and transmission manufacturing capacity to the United States by Japanese automobile manufacturers.

The PIIE authors concluded as follows:

Japanese multinationals with operations in the United States, like other foreign investors and US-headquartered American multinationals, make up the most productive and highest-paying segment of the US economy. They conduct more R&D, provide more value added to US domestic inputs, and export more goods and services than other firms in the US economy. Their superior production techniques and quality-control processes spill over horizontally and vertically to improve the performance of US firms and workers. US interests are best served by making the domestic economy a more favorable destination for these international corporations from around the world.<sup>12</sup>

Again, FDI by JAMA member companies in the United States has been among the most significant areas of FDI in U.S. manufacturing since it began in 1982, and it has contributed to all of the factors that the Department of Commerce uses as a measure of the strength and vitality of the U.S. manufacturing sector: R&D expenditures, greenfield investment, skilled and highly compensated jobs, and exports.

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<sup>11</sup> *Id.* at 7.

<sup>12</sup> *Id.* at 10.



The expert analysis from both U.S. government and private sector economists demonstrates conclusively that, by whatever measure this investigation examines the strength of the U.S. economy or manufacturing sector, imports related to the Japanese auto industry and FDI by Japanese auto companies have without question made a positive contribution to what is in fact a healthy situation.

**B. Vehicle Imports from Japan Are Not Increasing.**

The Department's announcement states that imports of passenger vehicles into the United States have *grown* over time, and it blames negative trends in the U.S. economy on this growth. According to data compiled by JAMA, however, Japanese vehicle exports to the United States have been cut in half from the mid-1980s.

This decrease in Japanese imports has been matched by dramatic increases in U.S. production of Japanese-brand vehicles (a ten-fold increase since the mid-1980s, to nearly 3.8 million U.S.-built vehicles in 2017) and the purchase of U.S.-made automotive parts (from about \$2 billion in 1986 to over \$70 billion in 2017). The data reflected on Exhibits 1 and 2 illustrate these positive trends. While the 2017 numbers are themselves impressive, the size and rapidity of the increases in production and purchase of domestic parts conclusively demonstrate that Japanese-brand automakers have *strengthened* the U.S. motor vehicle manufacturing industry, U.S. manufacturing in general, and the overall U.S. economy.

Further, The Department's announcement does not acknowledge important contributions of Japanese automobile manufacturers to the U.S. economy and auto industry, such the \$48 billion in cumulative manufacturing investments and exports from the United States. In examining the U.S. auto industry, the massive JAMA member company investments in the United States and exports from our members' U.S. plants should be taken into account.

The Department's announcement also suggests that foreign manufacturing is responsible for the decline in U.S. workers' employment in the motor vehicle manufacturing

industry. While the overall importation of vehicles to the U.S. has increased, there is no cause and effect relationship between increased imports and decreased auto industry employment, as U.S. production of vehicles has also increased. In fact, production efficiency and productivity enhancements are the major factors leading to the decrease of employment in manufacturing, yet these factors have strengthened the global competitiveness of the auto industry. At the same time, Japanese-brand auto companies have been responsible for a large portion of *increased* employment in the United States automobile industry over time. JAMA members now directly employ over 92,000 U.S. workers. Exhibit 3 shows the dramatic increase in Japanese-brand automakers' direct U.S. employment. Exhibit 4 features a chart showing the 2011-2017 percentage increase in U.S. direct manufacturing employment by Japanese-brand automakers as compared to the increase in overall U.S. manufacturing employment.

In the immediate post-recession timespan, Japanese-brand automakers increased their U.S. direct manufacturing employment by 21%, whereas overall U.S. manufacturing employment increased by only 6% during this same period. This demonstrates the degree to which JAMA members have contributed significantly to post-recession U.S. economic growth and manufacturing employment.

**CONCLUSION: THE CRITERIA IN SECTION 232 SHOW THAT THERE IS NO BASIS FOR PROCEEDING FURTHER WITH THIS INVESTIGATION.**

In short, all of the criteria to be considered under Section 232 weigh against imposing tariffs on the import of automobiles and automotive parts. *See* 15 C.F.R. § 705.4. Specifically:

- Quantity and nature of imports: Japanese automobile imports into the U.S. have been cut approximately in half since the mid-1980s. Japanese-brand automakers continue to expand U.S. production. *See* 15 C.F.R. § 705.4(a).
- Domestic production needed and capacity of domestic industry to meet that need: Japanese-brand automakers have enhanced U.S. production and strengthened the U.S. automotive industry through investments worth over \$48 billion in manufacturing

alone. Japanese-brand auto companies have been responsible for a large portion of *increased* employment in the United States automobile industry over time. JAMA members directly employ over 92,000 U.S. workers, a more than eight-fold increase over the last 30 years.. *See* 15 C.F.R. § 705.4(a)(1)-(2).

- Human resources, products, raw materials, production equipment and facilities, and other supplies and services: Japanese-brand automakers have directly employed more and more U.S. workers (including highly skilled and educated workers), and their operations support 1.5 million U.S. jobs in direct, dealership network, upstream (e.g. parts supplier), and spin-off employment. U.S.-manufactured parts are increasingly included in Japanese-brand vehicles manufactured both in the United States and globally. *See* 15 C.F.R. § 705.4(a)(3).
- Growth requirements, investment, exploration, and development: Japanese-brand automakers have supported and contributed substantially to U.S. R&D and design, including significant contributions to the United States' technological leadership. *See* 15 C.F.R. § 705.4(a)(4).
- Impact of foreign competition: Japanese-brand automakers have made an overall positive contribution to the U.S. automotive industry, as well as to the U.S. economy generally. Likewise, JAMA members have contributed to the global competitiveness of the American automotive industry. *See* 15 C.F.R. § 705.4(b)(1).
- Displacement of domestic products causing substantial unemployment: Japanese-brand automakers directly employ over 92,000 U.S. workers. By contrast, the imposition of tariffs on automotive imports is projected to result in a *net loss* of about 195,000 jobs in the short term.<sup>13</sup> The continuous development of the U.S. automotive industry

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<sup>13</sup> *See* Sherman Robinson, et al., Peterson Institute for International Economics, “*Trump’s Proposed Auto Tariffs Would Throw US Automakers and Workers Under the Bus*” (available

depends upon free trade and a favorable business environment. See 15 C.F.R. § 705.4(b)(2).

JAMA believes that the above facts and figures attesting to contributions to the U.S. economy and employment underscore the importance of strong economic ties between the United States and companies that invest in the United States, regardless of country of origin.

### **SUMMARY**

JAMA has critical concerns regarding the initiation of a Section 232 investigation into imported vehicles and automotive parts. First, JAMA members are an integral part of a thriving and diverse U.S. automobile industry, contributing to overall U.S. economic vitality and growth. The tariffs contemplated by a Section 232 investigation would do far more harm than good by disrupting mutually beneficial relationships between Japanese-brand automakers, U.S. workers, U.S. consumers, and companies in the automotive, high-tech, and other sectors with which JAMA members partner and conduct business. Second, automotive imports do not harm U.S. national security. JAMA accordingly urges the Department to find that Japanese auto exports present no threat to U.S. national security, and to recommend to the President, pursuant to 15 C.F.R. §§ 705.2 & 705.10, that the imposition of tariffs on imported automobiles and automotive parts is not appropriate.

The auto industry is changing rapidly as technology advances, and keeping auto manufacturing in the United States globally competitive means focusing on challenges with forward-thinking approaches. Through policies that expand opportunities for the effective integration of technology, manufacturing, and motor vehicle transportation, the U.S. auto industry can continue to hone its competitive edge. JAMA members, as participants in the U.S. automotive industry, will continue not only to supply U.S. consumers with vehicles that meet

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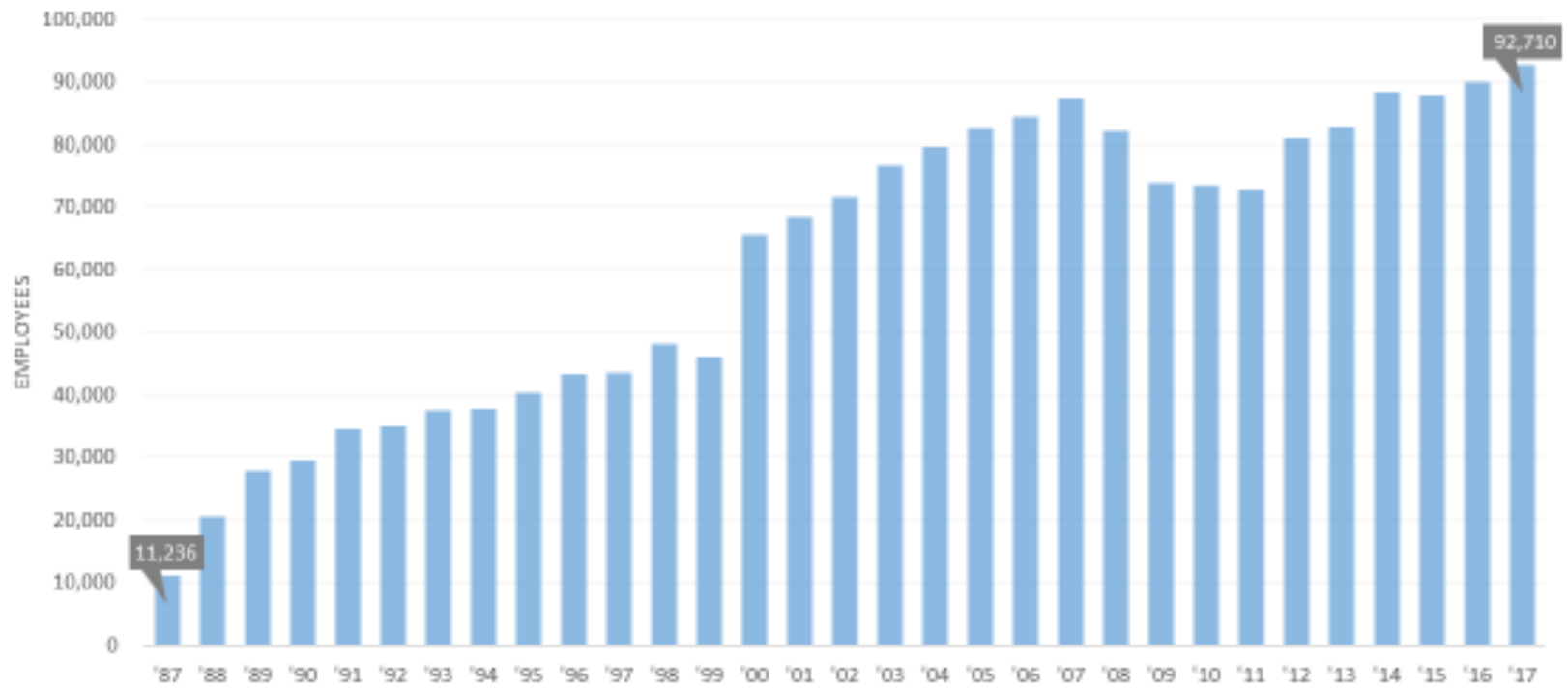
at <https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and>) (May 31, 2018) (accessed Jun. 5, 2018).

their needs, thereby contributing to the U.S. economy and employment, but also to collaborate closely with the U.S. auto industry as the world transitions to next-generation mobility.

### Exhibit A

- Employment has greatly increased with the expansion in local production, contributing to U.S. job creation.

### Direct Employees in the U.S.



Source: JAMA

### Exhibit B

- In 1985, Japan exported 3.13M vehicles to the U.S. As of 2017, 30 years later, this number has decreased by almost half to 1.7M. During that same period, Japanese-brand automakers expanded U.S. production by more than 10x, reaching 3.77M vehicles in 2017.

### Vehicle Exports from Japan to U.S. and U.S. Production



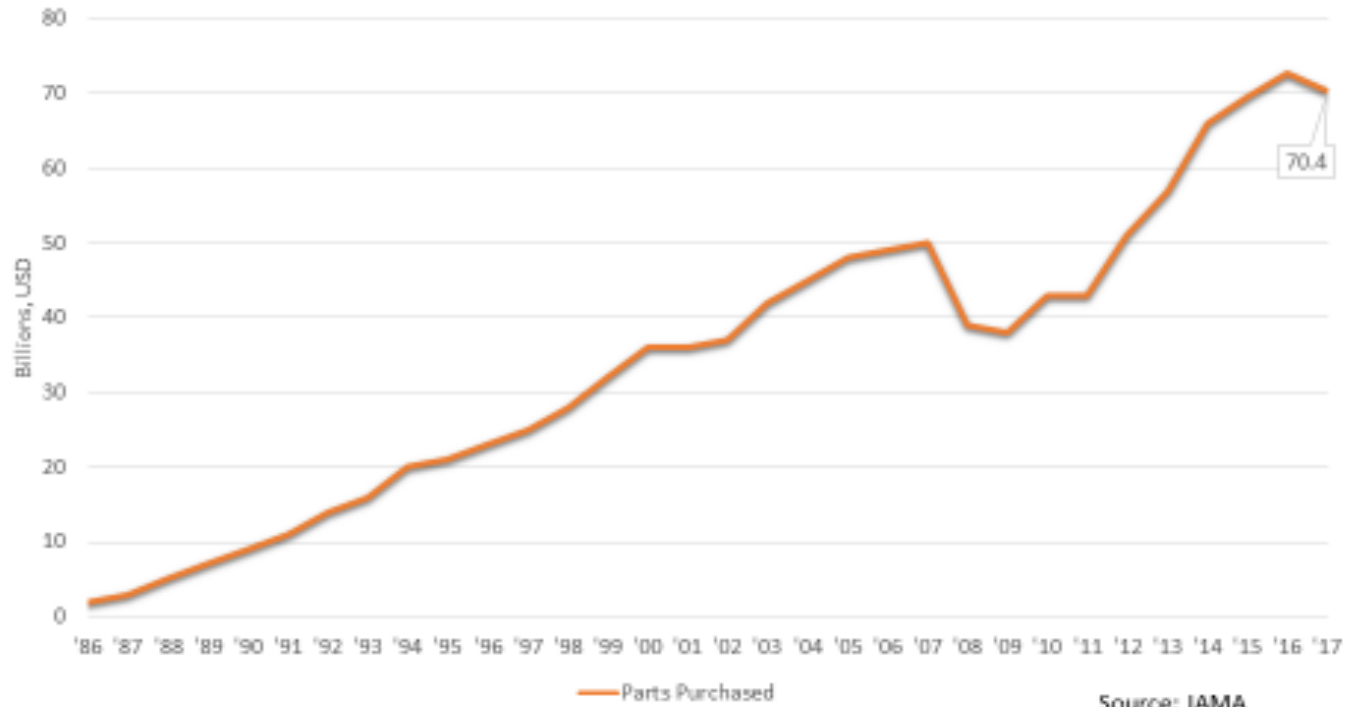
Source: JAMA

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### Exhibit C

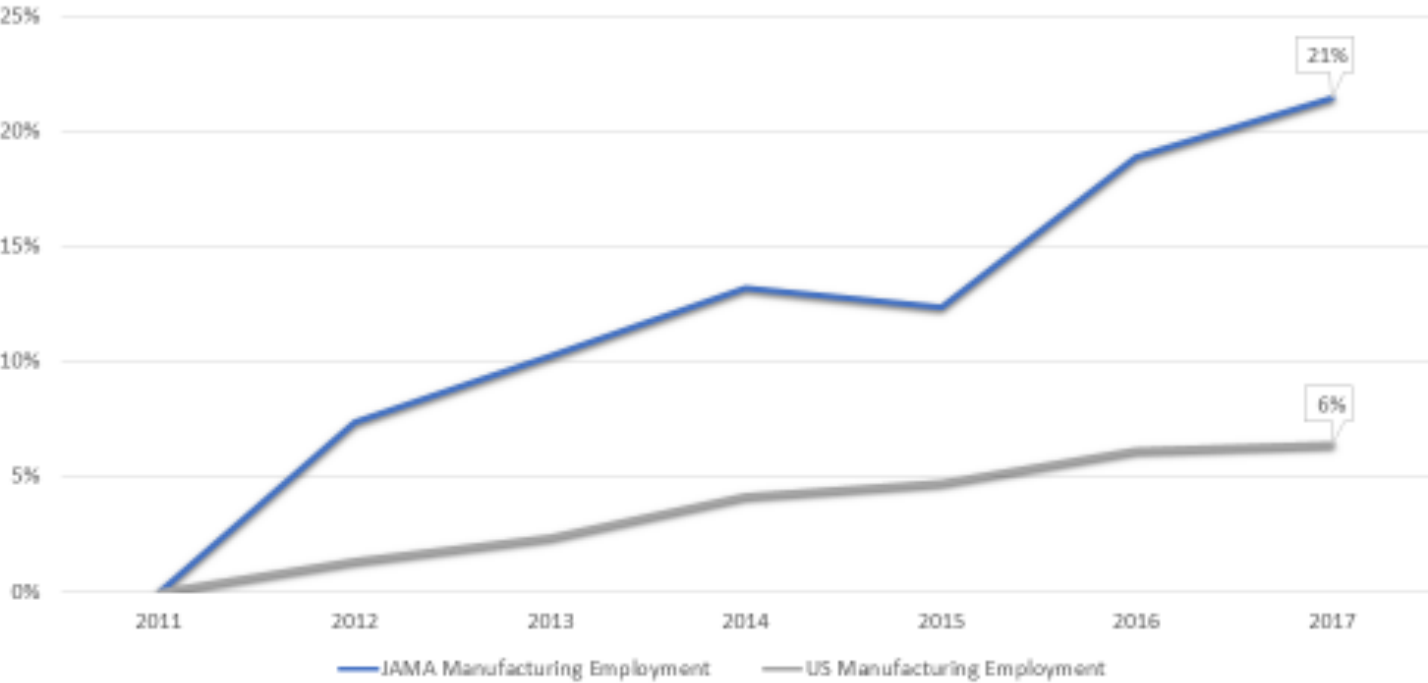
- Since the mid-1980s, Japanese-brand automakers have significantly increased their purchases of U.S.-made parts, for use in both U.S. and Japan-based manufacturing

### U.S.-made Parts Purchases





### Exhibit D Percentage Growth in Manufacturing Employment



\*All percentage increases are relative to a 2011 baseline, they are not year-over-year increase

Source: JAMA, BLS