



## **United States Investigation Under Section 232 of the Trade Expansion Act of 1962 To Determine the Effects on U.S. National Security of Imports of Steel**

May 31, 2017

### **Introduction**

The American Automotive Policy Council (AAPC), representing the common public policy interests of its member companies – FCA US, Ford Motor Company and General Motors Company – provides the following views and recommendations to the U.S. Department of Commerce, Bureau of Industry and Security, in response to the request for public comments on the Section 232 investigation into the effect of steel imports on the national security of the United States.<sup>1</sup>

The Federal Register Notice (82 FR 20819) outlines the subjects of particular interest to the U.S. Department of Commerce. Of those subjects, the following comments focus on the impact on the U.S. automotive industry of restricting imports of steel and steel products into the United States.

### **Summary**

The U.S. automotive industry makes significant contributions to the U.S. steel industry and the U.S. economy, including purchasing 15% of all the steel consumed in the United States. The vast majority of the steel used in the United States by America's automakers— FCA US, Ford and GM – is domestically sourced from U.S. steel mills.

Although sympathetic to the challenges the steel industry faces, we are concerned that if, as a result of this Section 232 investigation, the President were to increase tariffs on foreign steel or impose other import restrictions, the auto industry and the U.S. workers that the industry employs would be adversely affected and that this unintended negative impact would exceed the benefit provided to the steel industry from this Executive action.

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<sup>1</sup> The U.S. Secretary of Commerce has been tasked with conducting an investigation under Section 232 of the Trade Expansion Act of 1962 to determine the effects on the national security of imports of steel and submit a report to the President of the United States on the findings. If the Secretary finds that steel is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security of the United States, the Secretary shall recommend actions and steps that should be taken to adjust steel imports so that they will not threaten to impair national security.

Steel is a critical input into the manufacture of automotive products. The price of steel in the United States is already significantly higher than in the markets where our competitors build the majority of their cars and trucks.<sup>2</sup> This puts U.S. automakers at a competitive disadvantage.

Inevitably, the imposition of across the board higher tariffs or other restrictions on imports of steel into the United States would only widen the existing price gap by increasing the price of U.S. steel and thus the cost of U.S.-built vehicles. Additionally, outside of the United States, the price of steel will fall further, giving foreign automakers an additional cost advantage over the U.S. auto industry.

As a result of such a Section 232 remedy, sales of domestically-built cars and trucks would fall, U.S. auto exports would shrink, and American auto sector jobs would be lost. In the end, this contraction could actually reduce the amount of U.S. steel consumed by U.S. automakers, jeopardizing the very industry the remedy was intended to assist.

We appreciate the challenges that the U.S. steel industry is facing, and we support solutions that will address the problem while avoiding unintended negative repercussions. Moreover, to strengthen the U.S. steel industry, we encourage the Trump administration to look for ways to significantly increase U.S. auto exports. This would be a win for the U.S. economy, the U.S. automotive industry, the U.S. steel industry, and most importantly, U.S. workers.

### **Economic Contributions of the U.S. Automotive Industry**

The U.S. automotive industry makes significant contributions to the U.S. economy, with FCA US, Ford Motor Company and General Motors Company representing the majority of the following 2016 economic contributions.<sup>3</sup>

- Directly employing/supporting more than 7.3 million American jobs- including manufacturers of auto parts, steel, glass, plastics, rubber and semi-conductors;
- Exporting \$137 billion in vehicles and parts, more than any other U.S. industry sector;
- Manufacturing 12.2 million cars & trucks;
- Representing 8% of the manufacturing sector's contribution to GDP on a value added basis;
- Investing \$8 billion in U.S. plants/equipment, and nearly \$20 billion in R&D; and
- Selling a record 17.5 million cars and light trucks.

Each job created at a U.S. automotive assembly plant generates more supporting jobs throughout the U.S. economy than any other U.S. industry sector.<sup>4</sup> Also, as America's number one export

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<sup>2</sup> <http://steelbenchmarker.com/files/history.pdf>

<sup>3</sup> Representing the entire U.S. automotive sector. U.S. exports 2016: U.S. Dept. of Commerce International Trade Administration. U.S. production and sales 2016: Automotive News Data Center. R&D and Capital Investment 2016: Estimated based on the American Automotive Policy Council's State of the U.S. Automotive Industry 2016. American Jobs 2016: Estimated using Center for Automotive Research, Contribution of the Automotive Industry to the United States and the growth rate based on the Current Employment Statistics survey.

<sup>4</sup> Center for Automotive Research, Contribution of the Automotive Industry to the United States (Jan. 2015)

sector, the U.S. automotive sector's \$137 billion in exports supports more than 800,000 U.S. jobs.<sup>5</sup> This underscores the broad impact that a strong, globally competitive and healthy U.S. auto sector can have on job growth in the United States.

### **Automotive and Steel Industries and the U.S. Economy**

We believe that an internationally competitive U.S. steel industry is essential to the long-term success of America's automotive industry, and that both industries are vital to the U.S. economy, and contribute to the national security of the United States. However, Section 232 remedies that result in trade restrictions that lead to higher prices for steel for the automotive and other steel consuming industries would weaken those industries and, ultimately, the U.S. steel industry. As such, an assessment of the impact on both the steel industry and steel consuming industries, such as the automotive industry, should be an important part of the Section 232 investigation and recommendations.

### **Automotive and Steel Industry Cooperation**

The AAPC and the American Iron and Steel Institute (AISI) have a history of cooperating on shared interests. Both associations have witnessed their respective industries undergo difficult restructurings, while facing many of the same unfair international trade and investment practices, including currency manipulation. We plan to continue to work together on addressing this particularly pernicious non-tariff barrier and other shared challenges as they arise.

We sympathize with the situation that the U.S. steel industry is confronting and support solutions that will address the problem while avoiding unintended negative repercussions. To the extent that foreign countries are dumping or subsidizing steel imported into the United States, antidumping and countervailing duties are justified. Additionally, global solutions to address foreign steel production overcapacity are also appropriate. However, we are concerned that across the board tariff hikes or other trade restrictions would result in unintended negative consequences for the U.S. automotive industry's U.S. and international competitiveness, and diminish the contributions the U.S. automotive industry makes to U.S. economic growth, exports, and job support and creation.

### **Automotive Industry and Steel Use**

Steel is a critical input into the manufacture of automotive products. Several different kinds of steel are used in every vehicle built in the United States, including regular steel, high and medium strength steel, stainless steel and small volumes of other specialty steels. In fact, the typical motor vehicle weighs 3,991 pounds, and of that, more than half (54%) or 2,138 pounds is

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<sup>5</sup> U.S. Department of Commerce - every \$1 billion in U.S. exports supports about 6,000 U.S. jobs.

steel.<sup>6</sup> This translates into the automotive industry consuming nearly 15% of all steel used in the United States, including 14% of all alloy steel and 21% of all stainless steel.<sup>7</sup>

The U.S. auto industry has historically and continues today to source the overwhelming majority of the steel used in the cars and trucks built domestically from U.S. steel mills. The primary reasons for this are the close proximity of U.S. steel mills to U.S. auto plants, as well as the high quality of American steel. However, despite the overwhelming reliance on U.S. produced steel, for a variety of reasons, including the reluctance by steel suppliers to enter into competitive, long-term supply contracts, U.S. automakers also source some steel from abroad.

Today, the price of steel in the United States is significantly higher than in Asia and Europe.<sup>8</sup> In a globally competitive industry, this puts U.S. automakers at a significant competitive disadvantage.

Across the board tariff hikes or other trade restrictions on imports of steel into the United States would inevitably exacerbate the existing price disparity and further reduce the competitiveness of U.S. steel consuming industries. It would hit the U.S. auto industry especially hard, since our global competitors in Europe and Asia, which export millions of cars and trucks to the United States every year and compete with vehicle exporters from the U.S. in third country markets, would not be burdened with the higher cost of steel in the United States, providing them with a significant competitive advantage over U.S. carmakers. Import restrictions in the U.S. could also divert excess steel to other auto producing markets, resulting in even lower priced imports into the U.S. of vehicles and parts that would unfairly compete with U.S. automakers.

Given the significant contributions the U.S. automotive industry makes to the U.S. economy, and the millions of jobs that the sector supports, we urge the Department of Commerce to refrain from any actions that would materially increase our costs and limit our ability to compete.

### **Automotive Exports and Steel**

Growing U.S. automotive exports are strongly in the interest of the U.S. economy as well as the U.S. steel industry. In 2016, about 14.3 million tons of steel consumed in the United States was used by the U.S. auto industry. Assuming, conservatively, that about 85% of that, or 12.2 million tons, came from U.S. steel mills we estimate that \$5.5 billion worth of U.S. produced steel was exported as part of automotive products.<sup>9</sup>

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<sup>6</sup> In addition to being one of the top consumers of steel, America's automakers are also among the largest purchasers of aluminum, copper, iron, lead, plastics, rubber, textiles, vinyl, and computer chips.

<sup>7</sup> Ward's Automotive Facts and Figures & the American Chemistry Council.

<sup>8</sup> <http://steelbenchmarker.com/files/history.pdf>

<sup>9</sup> With a conservatively estimated U.S. auto industry consumption of 12.2 million tons of U.S. produced steel in 2016 and the U.S. exporting \$137 billion in auto products in 2016, and an estimated 4% of that value was steel manufactured in the United States, the U.S. auto industry exported \$5.5 billion worth of U.S. produced steel.

In 2016, only about 1 out of 6 of the vehicles built in the United States was exported.<sup>10</sup> Conversely, Japan, Korea and Germany all export more than half the cars and trucks they build, a big boost for the steel industries in those markets. If the U.S. automakers were to increase their exports by 50%, then U.S. exports would increase by about \$27 billion, supporting up to an additional 150,000+ U.S. jobs.<sup>11</sup> If this achievable goal was attained, the U.S. could grow the number of U.S. auto jobs by an amount equaling the total number of Americans employed in the U.S. steel industry today – 150,000. As noted above, this would also lead to a significantly higher consumption of U.S. steel by the U.S. automotive industry.

The U.S. auto industry faces barriers to exports in many of the largest markets in the world. Efforts aimed at addressing these barriers would grow the U.S. economy and create more jobs. To increase U.S. exports, we recommend addressing currency manipulation, an issue that also negatively affects the U.S. steel industry, as well as promoting global acceptance of vehicles built to U.S. auto standards, to facilitate economic growth in our two domestic industries.

If, on the other hand, policies are adopted that, though well-intentioned, make our domestically-produced automobiles more expensive, the number of American cars we can export and sell will drop significantly, to the detriment of both the U.S. auto and steel industries.

## **Conclusion**

While we strongly support the Administration's focus on ensuring that our trading partners live up to their commitments and abide by their trade-related obligations, actions taken as a result of this Section 232 investigation to restrict imports of steel, in order to support the U.S. steel industry, could have unintended negative consequences for the domestic automotive industry and the millions of American workers it directly and indirectly employs.

Any such restrictions that this Administration might implement would lead to an increase in the price of U.S. steel and depress the price of steel in foreign markets. This would lead to lower sales of domestically-built cars and trucks in the highly competitive U.S. auto market, a decrease in U.S. auto exports, and a loss of the jobs that those economic activities support. In the end, that would be a net-negative for the U.S. economy, and potentially the U.S. steel industry – the very sector such restrictions were designed to assist.

We respectfully recommend that the Trump administration refrain from unilaterally imposing across the board tariff hikes or other trade restrictions that would undermine the competitiveness of America's auto industry. We instead recommend seeking a global solution to address foreign steel production overcapacity, while looking for ways to open markets and increase exports,

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<sup>10</sup> United States International Trade Commission Tariff and Trade Dataweb, 2016 Data Total Exports for Passenger Vehicle and Light Trucks to the World; Automotive News, 2016 North American Production Data.

<sup>11</sup> The average value of a car that U.S. automakers export is \$27,600; accordingly, the value of an additional 1 million vehicles exported would be approximately \$25.6 billion. Utilizing the formula cited above, this would lead to more than an additional 160,000 jobs.

which would be a win for the U.S. economy, the U.S. automotive and steel industries, and, most importantly, for the American worker.