Appendix B

3. Reporting

After grant approval and through grant completion, you will be required to provide the following:

a. An SF–425, ''Federal Financial Report,'' and a project performance report will be required on a semiannual basis (due 30 working days after end of the semiannual period). The project performance reports shall include the following: A comparison of actual accomplishments to the objectives established for that period;

b. Reasons why established objectives were not met, if applicable;

c. Reasons for any problems, delays, or adverse conditions, if any, which have affected or will affect attainment of overall project objectives, prevent meeting time schedules or objectives, or preclude the attainment of particular objectives during established time periods. This disclosure shall be accompanied by a statement of the action taken or planned to resolve the situation; and

d. Objectives and timetable established for the next reporting period.

e. Provide a final project and financial status report within 60 days after the expiration or termination of the grant.

f. Provide outcome project performance reports and final deliverables.

G. Agency Contacts

If you have questions about this Notice, please contact the appropriate State Office at *http://www.rd.usda.gov/contact-us/state-offices.* Program guidance as well as application and matching funds templates may be obtained at *http://www.rd.usda.gov/programs-services/rural-cooperative-development-grant-program.* If you want to submit an electronic application, follow the instructions for the RCDG funding announcement located at *http://www.grants.gov.* You may also contact National Office staff: Natalie Melton, RCDG Program Lead, *natalie.melton@wdc.usda.gov,* or call the main line at 202–690–1374.

H. Nondiscrimination Statement

In accordance with Federal civil rights law and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, gender identity (including gender expression), sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (*e.g.,* Braille, large print, audiotape, American Sign Language, etc.) should contact the responsible Agency or USDA's TARGET Center at (202) 720–2600 (voice and TTY) or contact USDA through the Federal Relay Service at (800) 877–8339. Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD–3027, found online at *http://www.ascr.usda.gov/complaint_filing_cust.html* and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632–9992. Submit your completed form or letter to USDA by:

(1) *Mail:* U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue SW, Washington, DC 20250–9410;

(2) *Fax:* (202) 690–7442; or

(3) *Email: program.intake@usda.gov.*

Dated: May 22, 2018.

Bette B. Brand,

Administrator, Rural Business-Cooperative Service.

[FR Doc. 2018–11482 Filed 5–29–18; 8:45 am]

BILLING CODE 3410–XY–P

DEPARTMENT OF COMMERCE

Notice of Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Automobiles, Including Cars, SUVs, Vans and Light Trucks, and Automotive Parts

AGENCY: U.S. Department of Commerce.

ACTION: Notice of request for public comments and public hearing.

SUMMARY: On May 23, 2018, the Secretary of Commerce initiated an investigation to determine the effects on the national security of imports of automobiles, including cars, SUVs, vans and light trucks, and automotive parts. This investigation has been initiated under section 232 of the Trade Expansion Act of 1962, as amended. Interested parties are invited to submit written comments, data, analyses, or other information pertinent to the investigation to the Department of Commerce by June 22, 2018. Rebuttal comments will be due by July 6, 2018. The Department of Commerce will also hold a public hearing on the investigation on July 19 and 20, 2018 in Washington, DC. This notice identifies the issues on which the Department is interested in obtaining the public's views. It also sets forth the procedures for public participation in the hearing.

DATES: The due date for filing comments, for requests to appear at the public hearing, and for submissions of a summary of expected testimony at the public hearing is June 22, 2018.

The due date is July 6, 2018 for rebuttal comments submitted in response to any comments filed on or before June 22, 2018.

The public hearings will be held on July 19 and 20, 2018. The hearings will begin at 8:30 a.m. local time and conclude at 5:00 p.m. local time, each day.

ADDRESSES: *Written comments:* All written submissions must be in English and must be addressed to Section 232 Automobile and Automotive Parts Imports Investigation, and filed through the Federal eRulemaking Portal: *http://www.regulations.gov.* To submit comments via *www.regulations.gov,* enter docket number DOC–2018–0002 on the home page and click ''search.'' The site will provide a search results page listing all documents associated with this docket. Find a reference to this notice and click on the link entitled ''Comment Now!'' (For further information on using *www.regulations.gov,* please consult the resources provided on the website by clicking on ''How to Use This Site'' on the left side of the home page). For alternatives to on-line submissions, please contact Sahra Park-Su at (202) 482–2811.

Hearings: The public hearings will be held in the Department of Commerce's auditorium at 1401 Constitution Avenue NW, Washington, DC 20230.

FOR FURTHER INFORMATION CONTACT: Sahra Park-Su, U.S. Department of Commerce (202) 482–2811. For more information about the section 232 program, including the regulations and the text of previous investigations, see *www.bis.doc.gov/232.*

SUPPLEMENTARY INFORMATION:

Background

On May 23, 2018, the Secretary of Commerce (''Secretary'') initiated an investigation under section 232 of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1862), to determine the effects on the national security of imports of automobiles, including cars, SUVs, vans and light trucks, and automotive parts. If the Secretary finds that automobiles and/or automotive parts are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security, the Secretary shall recommend actions and steps that should be taken to adjust automobile and/or automotive parts imports so that they will not threaten to impair the national security.

Written Comments

This investigation is being undertaken in accordance with part 705 of the National Security Industrial Base Regulations (15 CFR parts 700 to 709) (''NSIBR''). Interested parties are invited to submit written comments, data, analyses, or information pertinent to this investigation to the U.S. Department of Commerce by June 22, 2018. Rebuttal comments submitted in response to comments received on or before June 22, 2018 may be filed no later than July 6, 2018.

The Department is particularly interested in comments and information directed to the criteria listed in § 705.4 of the NSIBR as they affect national security, including the following:

- The quantity and nature of imports of automobiles, including cars, SUVs, vans and light trucks, and automotive parts and other circumstances related to the importation of automobiles and automotive parts;
- Domestic production needed for projected national defense requirements;
- Domestic production and productive capacity needed for automobiles and automotive parts to meet projected national defense requirements;
- The existing and anticipated availability of human resources, products, raw materials, production equipment, and facilities to produce automobiles and automotive parts;
- The growth requirements of the automobiles and automotive parts industry to meet national defense requirements and/or requirements to assure such growth, particularly with respect to investment and research and development;
- The impact of foreign competition on the economic welfare of the U.S. automobiles and automotive parts industry;
- The displacement of any domestic automobiles and automotive parts causing substantial unemployment, decrease in the revenues of government, loss of investment or specialized skills and productive capacity, or other serious effects;
- Relevant factors that are causing or will cause a weakening of our national economy;
- The extent to which innovation in new automotive technologies is necessary to meet projected national defense requirements;
- Whether and, if so, how the analysis of the above factors changes when U.S. production by majority U.S.-owned firms is considered separately from U.S. production by majority foreign-owned firms; and
- Any other relevant factors.

Additional Requirements for Written Comments

The *www.regulations.gov* website allows users to provide comments by filling in a ''Type Comment'' field, or by attaching a document using an ''Upload File'' field. The Department prefers that comments be provided in an attached document. The Department prefers submissions in Microsoft Word (.doc) or Adobe Acrobat (.pdf). If the submission is in an application other than those two, please indicate the name of the application in the ''Type Comment'' field. Please do not attach separate cover letters to electronic submissions; rather, include any information that might appear in a cover letter in the comments themselves. Similarly, to the extent possible please include any exhibits, annexes, or other attachments in the same file as part of the submission itself rather than in separate files.

Comments will be placed in the docket and open to public inspection, except confidential business information. Comments may be viewed on *www.regulations.gov* by entering docket number DOC–2018–0002 in the search field on the home page.

Material that is business confidential information will be exempted from public disclosure as provided for by § 705.6 of the regulations. Anyone submitting business confidential information should clearly identify the business confidential portion of the submission, then file a statement justifying nondisclosure and referring to the specific legal authority claimed, and provide a non-confidential version of the submission which can be placed in the public file on *http://www.regulations.gov.*

For comments submitted electronically containing business confidential information, the file name of the business confidential version should begin with the characters ''BC''. Any page containing business confidential information must be clearly marked ''BUSINESS CONFIDENTIAL'' on the top of that page. The file name of the non-confidential version should begin with the character ''P''. The ''BC'' and ''P'' should be followed by the name of the person or entity submitting the comments or rebuttal comments. Filers submitting comments containing no business confidential information should name their file using the name of the person or entity submitting the comments.

Communications from agencies of the United States Government will not be made available for public inspection. Please note that the submission of a summary of expected testimony at the public hearing is separate from the submission of other written comments and should be submitted separately.

Public Hearing

Consistent with the interest of the U.S. Department of Commerce in soliciting public comments on issues affecting U.S. industry and national security, the Department is holding a public hearing as part of the investigation. The hearing will further assist the Department in determining whether imports of automobiles and automotive parts threaten to impair the national security and in recommending remedies if such a threat is found to exist. Public comments at the hearing should address the criteria listed in § 705.4 of the NSIBR as they affect national security described above.

The hearing will be held on July 19 and 20, 2018 at the U.S. Department of Commerce auditorium, 1401 Constitution Avenue NW, Washington, DC 20230. The hearing will begin at 8:30 a.m. local time and conclude at 5:00 p.m. local time, each day.

Procedure for Requesting Participation

The Department encourages interested public participants to present their views orally at the hearing. Any person wishing to make an oral presentation at the hearing must submit a written request to the Department of Commerce by June 22, 2018. The request to appear must include a summary of the expected testimony, and may also be accompanied by additional material. Remarks at the hearing may be limited to five minutes to allow for possible questions from U.S. government representatives.

All submissions must be in English and sent electronically via *www.regulations.gov.* To submit a request to appear at the hearing via *www.regulations.gov,* enter docket number DOC–2018–0002. In the ''Type

Comment'' field, include name, address, email address, and telephone number of the person presenting the testimony, as well as the organization or company that they represent. Attach a summary of the testimony, and pre-hearing submission if provided, by using the ''Upload File'' field. The file name should include the name of the person who will be presenting the testimony.

The request to speak should include (1) the name and address of the person requesting to make a presentation; (2) a daytime phone number where the person who would be making the oral presentation may be contacted before the hearing; (3) the organization or company they represent; and (4) an email address.

Please note that the submission of a summary of expected testimony at the public hearing is separate from the request for written comments. Since it may be necessary to limit the number of persons making presentations, the written request to participate in the public hearing should describe the individual's interest in the hearing and, where appropriate, explain why the individual is a proper representative of a group or class of persons that has such an interest. If all interested parties cannot be accommodated at the hearing, the summaries of the oral presentations will be used to allocate speaking time and to ensure that a full range of comments is heard.

Each person selected to make a presentation will be notified by the Department of Commerce no later than 8:00 p.m. Eastern Daylight Time on July 12, 2018. The Department will arrange the presentation times for the speakers. Persons selected to be heard are requested to bring 20 copies of their oral presentation and of all exhibits to the hearing site on the day of the hearing. All such material must be of a size consistent with ease of handling, transportation and filing. While large exhibits may be used during a hearing, copies of such exhibits in reduced size must be provided to the hearing panel. Written submissions by persons not selected to make presentations will be made part of the public record of the proceeding. Confidential business information may not be submitted at a public hearing. In the event confidential business information is submitted it will be handled according to the same procedures applicable to such information provided in the course of an investigation. See 15 CFR 705.6. The hearing will be recorded.

The transcript of the hearing will be available on *www.regulations.gov* in docket number DOC–2018–0002.

Conduct of the Hearing

The Department reserves the right to select the persons to be heard at the hearing, to schedule their respective presentations, and to establish the procedures governing the conduct of the hearing. Each speaker may be limited to 5 minutes, and comments must be directly related to the criteria listed in 15 CFR 705.4 of the regulations. Attendees will be seated on a first-come, first-served basis.

A Department official will be designated to preside at the hearing. The presiding officer shall determine all procedural matters during the hearing. Representatives from the Department, and other U.S. Government agencies as appropriate, will make up the hearing panel. This will be a fact-finding proceeding; it will not be a judicial or evidentiary-type hearing. Only members of the hearing panel may ask questions, and there will be no cross-examination of persons presenting statements. However, questions submitted to the presiding officer in writing may, at the discretion of the presiding officer, be posed to the presenter. No formal rules of evidence will apply to the hearing.

Any further procedural rules for the proper conduct of the hearing will be announced by the presiding officer.

Special Accommodations

This meeting is physically accessible to people with disabilities. Requests for sign language interpretation or other auxiliary aids should be received by the Department of Commerce no later than June 22, 2018 by contacting the Department of Commerce official identified in this Notice.

Dated: May 24, 2018.

Wilbur L. Ross,

Secretary of Commerce.

[FR Doc. 2018–11708 Filed 5–25–18; 4:15 pm]

BILLING CODE P

DEPARTMENT OF COMMERCE

International Trade Administration

[A–533–875]

Fine Denier Polyester Staple Fiber From India: Final Affirmative Determination of Sales at Less Than Fair Value

AGENCY: Enforcement and Compliance, International Trade Administration, Department of Commerce.

SUMMARY: The Department of Commerce (Commerce) determines that fine denier polyester staple fiber (fine denier PSF) from India is being, or is likely to be, sold in the United States at less than fair value (LTFV). The period of investigation (POI) is April 1, 2016, through March 31, 2017.

DATES: Applicable May 30, 2018.

FOR FURTHER INFORMATION CONTACT: Patrick O'Connor, AD/CVD Operations, Office IV, Enforcement and Compliance, International Trade Administration, U.S. Department of Commerce, 1401 Constitution Avenue NW, Washington, DC 20230; telephone: (202) 482–0989.

SUPPLEMENTARY INFORMATION:

Background

On January 5, 2018, Commerce published the *Preliminary Determination* of this antidumping duty investigation, as provided by section 735 of the Tariff Act of 1930, as amended (the Act). Commerce preliminarily found that fine denier PSF from India was sold at LTFV.[1] A summary of the events that have occurred since Commerce published the *Preliminary Determination,* as well as a full discussion of the issues raised by interested parties for this final determination, may be found in the Issues and Decision Memorandum.[2] The Issues and Decision Memorandum is a public document and is on file electronically *via* Enforcement and Compliance's Antidumping and Countervailing Duty Centralized Electronic Service System (ACCESS). ACCESS is available to registered users at *https://access.trade.gov,* and to all parties in the Central Records Unit, room B8024 of the main Department of Commerce building. In addition, a complete version of the Issues and Decision Memorandum can be accessed directly at *http://enforcement.trade.gov/frn/.*

Commerce has exercised its discretion to toll deadlines for the duration of the closure of the Federal Government from January 20 through 22, 2018. The revised deadline for the final determination in this investigation is now May 23, 2018.[3]

[1] *See Fine Denier Polyester Staple Fiber from India: Preliminary Affirmative Determination of Sales at Less Than Fair Value, Postponement of Final Determination, and Extension of Provisional Measures* 83 FR 662 (January 5, 2018), and accompanying Preliminary Decision Memorandum (collectively, *Preliminary Determination*).

[2] *See* Memorandum, ''Fine Denier Polyester Staple Fiber from India: Issues and Decision Memorandum for the Final Affirmative Determination in the Less Than Fair Value,'' dated concurrently with, and hereby adopted by, this notice (Issues and Decision Memorandum).

[3] *See* Memorandum for The Record from Christian Marsh, Deputy Assistant Secretary for Enforcement and Compliance, performing the non-exclusive functions and duties of the Assistant Secretary for Enforcement and Compliance, ''Deadlines Affected by the Shutdown of the

Continued

Appendix C

UNITED STATES OF AMERICA
DEPARTMENT OF COMMERCE

+ + + + +

SECTION 232 NATIONAL SECURITY INVESTIGATION OF IMPORTS OF AUTOMOBILES AND AUTOMOTIVE PARTS
HEARING PANEL

+ + + + +

THURSDAY
JULY 19, 2018

+ + + + +

The Section 232 Hearing convened in the U.S. Department of Commerce Auditorium, 1401 Constitution Avenue, NW, Washington, D.C., at 8:30 a.m., Sahra Park-Su, Moderator, presiding.

U.S. GOVERNMENT PRESENT

WILBUR ROSS, Secretary of Commerce
NAZAK NIKAKHTAR, Assistant Secretary of Commerce
SAHRA PARK-SU, Moderator, Department of Commerce
JULIE ABRAHAM, Director, Office of International Transportation and Trade, Department of Transportation
NICOLE BAMBAS, Senior Advisor, Office of International Transportation and Trade, Department of Transportation
ANDRES CASTRILLON, Automotive Team Leader, International Trade Administration, Department of Commerce
ROBERT READ, Director of Industrial Assessments for the Deputy Assistant Secretary of Defense for Manufacturing and Industrial Base Policy, Department of Defense
MICHAEL VACCARO, Director, Office of Strategic Industries and Economic Security, Bureau of Industry and Security, Department of Commerce

ALSO PRESENT

KAZUTOSHI AIKAWA, The Government of Japan
ERIK AUTOR, National Association of Foreign Trade Zones
CLINTON BLAIR, Organization for International Investment
MATT BLUNT, American Automotive Policy Council
JOSEPH T. BOYLE, LG Electronics and LG Electronics Vehicle Components USA
JOHN BOZZELLA, Association of Global Automakers
MICHAEL R. DAVIDSON, JTEKT North America Corporation
LINDA DEMPSEY, National Association of Manufacturers
HOLGER ENGELMANN, Webasto Roof Systems
GERONIMO GUTIERREZ FERNANDEZ, The Government of Mexico
BRIAN GARST, Center for Freedom and Prosperity
SABARIAH GHAZALI, The Government of Malaysia
RICHARD GLIDDEN, Tianhai Electric North America, Inc.
JOHN HALL, Hyundai Motor Manufacturing Alabama
BILL HANVEY, Auto Care Association
WILLIAM M. HEDRICK, The Law Office of William M. Hedrick
CHRIS HEINEMAN, MAHLE Industries
KIRSTEN HILLMAN, The Government of Canada
MARK HYMAN, Hyman, LTD, and Cosdel International Transportation on behalf of Martin Button
DANIEL INGBER, Specialty Equipment Market Association
JENNIFER KELLY, UAW
YONG-GEUN KIM, Korean Automobile Manufacturers Association
MUSTAFA KOCA, The Government of Turkey
CODY L. LUSK, American International Automobile Dealers Association
MNINWA MAHLANGU, The Government of South Africa
MANUEL MANRIQUEZ, Japan Automotive Manufacturers Association

ALSO PRESENT

BERNHARD MATTES, German Association of the Automotive Industry
MARSHALL V. MILLER, Miller & Company, PC
CHRISTOPHER NORTHUP, Automotive Body Parts Association
DAVID O'SULLIVAN, The European Union
SCOTT PARVEN, Keidanren
CLARK PLUCINSKI, The Certified Automotive Parts Association
BRYAN RILEY, National Taxpayer Union Free Trade Initiative
RICHARD SMALLWOOD, Sumitomo Rubber North America, Inc.
KANG SUNG-CHEON, The Government of the Republic of South Korea
JENNIFER THOMAS, Alliance of Automobile Manufacturers
S. JENNY VAN, The Taipei Economic and Cultural Representative Office
PAUL C. VITRANO, Polaris Industries, Inc.
GUIQING WANG, The China Chamber of Commerce for Import and Export of Machinery and Electronic Products

XUEJIA WANG, The China Chamber of International Commerce

PETER WELCH, National Automobile Dealers Association

JIM WILSON, The Government of Ontario, Canada

ANN WILSON, Motor & Equipment Manufacturers Association

CONTENTS

CONTENTS (CONT.)

CONTENTS (CONT.)

CONTENTS (CONT.)

P-R-O-C-E-E-D-I-N-G-S

8:32 a.m.

MS. NIKAKHTAR: Good morning, everybody. Welcome to the public hearing of the Department of Commerce's Section 232 investigation on automobile and automotive parts.

My name is Nazak Nikakhtar, and I am the Assistant Secretary for the Department of Commerce's Industry and Analysis Office.

Joining us today are experts from across the U.S. Government. I would like to recognize and thank the following individuals for providing their expertise for our hearing today. They are all seated upfront.

Michael Vaccaro, Director of the Office of Strategic Industries and Economic Security at the Department of Commerce's Bureau of Industry and Security.

Andres Castrillon, Automotive Team Leader at the Department's International Trade Administration.

Julie Abraham, Director of the Office

of International Transportation and Trade at the U.S. Department of Transportation.

Nicole Bambas, Senior Advisor in the Office of International Transportation and Trade at the U.S. Department of Transportation.

And Robert Reed, Director of Industrial Assessments for the Deputy Assistant Secretary of Defense for Manufacturing and Industrial-Based Policy at the Department of Defense.

It is now my honor and great pleasure to introduce the Secretary of Commerce, Secretary Wilbur Ross. Secretary Ross was sworn in as the 39th Secretary of Commerce in February 2017. He is the principal voice of U.S. businesses and the Trump Administration, and is steadfastly devoted to assuring that U.S. industries remain globally competitive and ensuring that U.S. entrepreneurs and businesses have the tools they need to create good jobs and economic opportunity for every American, both today and tomorrow.

I will tell you from my own personal

experience that Secretary Ross cares deeply about growth opportunities for both large and small American businesses. I have been in the room with him when he is in a meeting or has taken calls from these companies personally. I have watched as Secretary Ross so diligently worked to implement expeditious and practical solutions to their concerns. It is truly remarkable how dedicated Secretary Ross is to serving our country and the interests of American companies and workers.

Further, Secretary Ross is the former Chairman of the Chief Strategy Officer of WL Ross & Company, and has more than 55 years of investment banking and private equity experience. He has been the Chairman or lead Director of more than 100 companies operating in more than 20 different countries.

Named by Bloomberg Markets as one of the 50 most influential people in global finance, Secretary Ross is the only person elected to both the Private Equity Hall of Fame and the

Turnaround Management Hall of Fame.

We truly cannot ask for a better person to serve as the Secretary of Commerce, and I personally cannot ask for a better leader to serve under. We are pleased to have him open today's public hearing.

Please welcome Secretary Ross.

(Applause.)

SECRETARY ROSS: Thank you, Nazak, for that kind introduction. We are fortunate to have people of your high caliber here in the Commerce Department.

And I welcome everyone to this discussion about the all-important American automobile industry. It's obvious by the attendance here this morning how vital this industry is to the U.S. and the global economy.

President Trump decided on May 23rd to initiate an investigation into the potential national security impacts of imports of automobiles and automobile parts. The Federal Register notice seeking input from the industry and from the public was issued a week later on May 30th. And we have received more than 2,300 comments.

Thank you all for being engaged with us in our formal investigation into the state of the U.S. automobile and automotive parts industries and the industry's impact on national security. It's clearly too early now to say if this investigation will ultimately result in a Section 232 recommendation on national security grounds, as we did earlier with steel and aluminum, and as we have initiated regarding the uranium industry.

But President Trump does understand how indispensable the U.S. automobile industry is. This industry had been a major driver of innovation. It provides a backbone for our industrial economy. It supports millions of Americans with high-paying jobs. And the industry is central to the advancement of new technologies such as autonomous vehicles, fuel cells, electronic motors, battery storage, composites, and other new materials and advanced manufacturing processes.

The intention of our hearing today is to gather information on the current strength of the domestic industry. We are interested in hearing about the global market and technology trends that are important to our assessment as to whether government action is required to assure the viability of U.S. domestic production and whether present conditions constitute a potential threat to our national security, as defined in Section 232 of the Trade Expansion Act of 1962.

We are carefully analyzing all of the information that you are providing and that our analysts are gathering from other sources. We are looking at every comment that has been filed. We need to understand the complexity of the industry, the global nature of supply chains and production systems.

So, I look forward to a very productive day and suggest we now begin with the first panel.

MS. NIKAKHTAR: Thank you, Mr. Secretary.

I also just wanted to take a quick opportunity to mention some of the other leaders at the Department of Commerce who are here. Peter Davidson, the Chief Counsel at the Commerce Department. He is sitting upfront. Under Secretary Gil Kaplan for the International Trade Administration. And I think I saw Gary Taverman, Acting Assistant Secretary for Enforcement and Compliance, and numerous other leaders from both the Department of Commerce and other government agencies, taking the time to join us today.

This is truly a collaborative effort among agencies of the industry to conduct this investigation and to share the information we all have to ensure that our analysis is robust.

Now I would like to turn it over to Sahra Park-Su, the Senior Policy Advisor at the U.S. Department of Commerce, and she will be serving today as our hearing moderator. And I'll call Sahra up to explain the hearing process for today.

Thank you.

MS. PARK-SU: Good morning. Thank you, Nazak.

And thank you, Secretary Ross, for being with us today as we hear from various groups and stakeholders as they present their testimony on the effect of imports of automobiles and automotive parts on our nation's security.

Before we begin, I would like to go over a few administrative rules for both our presenters and the audience.

For the presenters, each panel will present their testimony in the order as it appears on the agenda. When you begin, please state your name and the organization you represent. You will each have five minutes to present your testimony. I will inform you when you have one minute remaining by raising a green card; 30 seconds remaining when I raise the yellow card, and when your time is up, I will raise a red card. Please do not go over your allotted five minutes, as we hope to allow equal time for all who are here to testify today.

Please note, no outside equipment such as cell phones is allowed during our testimony.

Oh, I'm sorry, can everybody hear me?

Please note, no outside equipment such as cell phones is allowed during your testimony.

Once the entire panel has provided their testimony, there will be an opportunity for the United States Government panelists to seek clarification on specific points you have raised or seek further insights into your areas of expertise as it relates to this hearing.

Now, for the audience, due to time constraints, we will not be taking any questions from the audience. We also ask that you remain quiet and turn your cell phones to silent mode or off during the testimony. We ask that you refrain as much as possible from entering and exiting the auditorium during the testimony. There will be brief pauses between panels, and we encourage you to use it if you must enter or exit the auditorium. Lastly, please remember that if you leave the building complex for whatever reason, you will need to pass through security to re-enter the complex.

Now, at this time, would the United States Government panelists and the presenters for the first panel please come up and take your seats?

For the first panel, we welcome the Alliance of Automobile Manufacturers, Jennifer Thomas; American Automotive Policy Council, Governor Matt Blunt; the National Automobile Dealers Association, Peter Welch, and the National Association of Manufacturers, Linda Dempsey.

Good morning. Welcome.

Can you hear me? Great.

Ms. Thomas, you may begin.

MS. THOMAS: Can you hear me?

MS. PARK-SU: Yes, I can. Thank you.

MS. THOMAS: Good morning. My name is Jennifer Thomas, and I am the Vice President of

Federal Government Affairs at the Alliance of Automobile Manufacturers. We are a trade association comprised of 12 automakers, both domestic and international nameplates. I appreciate the opportunity to be here with you today.

Let me start my dispelling the notion that cars are a threat to national security. Americans have always had a love affair with cars. Buying the car is such a common aspiration that it has become part of the American dream. Getting your driver's license is a rite of passage, and everybody can remember their first car.

The auto industry is part of the very fabric of America. It's one of the most powerful engines driving our economy through jobs, facilities, R&D investments. On 9/11, one of our darkest days, the companies that I represent immediately responded with donations of vehicles and charitable contributions.

Now, sadly, there is a long list of

products that are no longer made here in America, like TVs, laptops, cell phones, even baseballs, but cars, millions of cars, are made in America, and our footprint continues to grow.

Right now, 14 automakers are operating 45 assembly facilities across 14 states. Those are both domestic and international automakers. We support more than 7 million American workers, generate $500 billion in annual paychecks, $200 billion in state and federal taxes, and every year automakers in the U.S. invest about $20 million in R&D, transforming mobility through automation and electrification.

I'm here today to reiterate our strong opposition to this unprecedented, unwarranted investigation and the potential imposition of higher auto tariffs. We appreciate the desire to strengthen our trade agreements to better achieve a level playing field, but tariffs are the wrong approach. Our view is shared by over 2200 comments that were filed before this hearing. In fact, we were only able to find three organizations who were supporting this inquiry.

The opposition is widespread, indeed, because the consequences are alarming. Higher tariffs will harm American workers, families, and the economy. Simply put, auto tariffs are a massive tax on consumers.

Our analyses show that a 25-percent tariff will increase the price of an imported car nearly $6,000 and the price of a U.S.-made car $2,000.

MS. BAMBAS: I'm getting a signal that the audience is having a little bit of a hard time hearing. If you don't mind speaking a little louder, please, for the folks in the back?

MS. THOMAS: Sure.

MS. BAMBAS: Appreciate it.

MS. THOMAS: My apologies.

MS. BAMBAS: Thank you very much.

MS. THOMAS: This would equate to an $83 billion tax on consumers, and that would trigger a domino effect throughout the industry and the economy. Because when vehicle prices rise, demand drops. Lower demand means less production. And when production declines, job losses follow.

A Peterson Institute analysis projects the job loss of 200,000, and if other countries retaliate, they estimate American job losses to exceed 600,000. That's about 10 percent of this country's auto jobs.

Tariffs will also strike at the heart of American technological leadership by chilling R&D investments. Today the U.S. is a leader in the global race to develop electrification and automation technologies. But, if auto tariffs raise costs and chill investments, then the U.S. may well lose that leadership. And other countries are already chasing automakers' investments and encouraging them to build R&D facilities overseas.

Retaliation would further threaten U.S. auto exports. Last year more than $100 billion in autos and auto parts were exported from our ports to more than 88 countries.

Retaliatory tariffs would restrict access to international markets, depress auto exports, reduce jobs, and threaten the industry's competitiveness in the global marketplace.

Speaking of competition in the global market, we understand that the agency has sent detailed questionnaires to automakers requesting information about their production. Companies are working on responding, but it is challenging due to the highly sensitive information that's been requested. We urge the Administration to take critical precautions to ensure that this competitive business information remains confidential and secure.

In closing, automakers support the Administration's efforts to level the playing field and strengthen our trade agreements to grow American jobs. But we respectfully contend that there is a better way to do this than raising tariffs. Our economic security could be strengthened by modernizing NAFTA, concluding a US/EU trade pact to reduce trade barriers on both sides of the Atlantic. And we encourage the Administration to seek other opportunities to expand market access for exports. This is the winning formula for continuing the economic success that the Trump Administration has reignited, and we look forward to partnering with you on our goals.

Thank you very much.

MS. PARK-SU: Thank you, Ms. Thomas.

Governor Blunt?

MR. BLUNT: Well, thank you.

I'm Matt Blunt. I'm the President of AAPC, the American Automotive Policy Council, which represents the common public policy interests of Fiat Chrysler, or FCA, Ford, and General Motors. We want to thank you for this opportunity to share our views on this Section 232 investigation.

While AAPC and its member companies share the Administration's goals of maximizing the economic contributions that America's auto sector makes to the U.S. economy, we are opposed to any increase in import tariffs on automobiles and auto parts that could result from this investigation.

Through iconic brands and deep American roots, FCA, Ford, and GM produce more of their vehicles here in the U.S. and source more of their parts from American suppliers than our foreign competitors. As a result, FCA, Ford, and GM employ near two out of three American auto workers, and they operate three out of five auto assembly plants in our country.

Since the industry's restructuring a decade ago, FCA, Ford, and GM have thrived with significant growth in their investment, sales, production, exports, and employment. Over the past decade, FCA, Ford, and GM's domestic car and light truck production and sales share have held steady at about 53 percent and 45 percent, respectively. And we hope to see our U.S. production number increase through expanded access to export markets and the removal of trade barriers that place American-made vehicles at a distinct disadvantage in key regions around the world.

President Trump and his Administration have clearly made the auto industry a priority, and we are thankful for this leadership in policy areas that are critical to the auto industry, including successful corporate tax reform. We are, however, very concerned that the positive effects of the Administration's policies could be undermined by the imposition of tariffs on imported vehicles and parts.

Our companies are extremely proud of the contributions they've made to the United States in peace and war. From our perspective, there is no evidence that automotive imports pose a threat to our national security. In addition, we believe there is sufficient capacity to meet any national security requirements. We do fully understand that economic security is a vital part of our nation's national security. In fact, we have concluded that tariffs under Section 232 would diminish the economic contributions that

FCA, Ford, and GM make to our nation's economy today. And this is an outcome that would be counterproductive to the Administration's intended goals for the domestic auto industry.

Our analysis shows that a tariff increase under Section 232, coupled with the existing tariffs on imported steel and aluminum, including from our North American allies, will result in a net loss of American jobs, lower capital investment, and lower exports by the U.S. auto sector. By increasing the cost to manufacture a car, the tariffs will lead to higher vehicle prices for all automakers, foreign and domestic. These higher costs will, in turn, lead to lower demand and lower auto sales and production. And ultimately, this will lead to fewer jobs in the auto industry.

Our analysis also shows that America's automakers, along with their suppliers and strategic partners in the technology industry, are leading the way in the development and application of advanced vehicle technologies, including cutting-edge EV and AV capabilities. Other countries are attempting to close the innovation gap by increasing their R&D investments, but, thanks to targeted investments by the U.S. Government, the automotive sector, academia, and the tech industry, as well as the unparalleled innovation environment in the United States, we have created a strong foundation for further advancements and leadership in the coming years.

To help ensure a bright future for the U.S. auto sector, while at the same time avoiding the negative, unintended consequences of higher tariffs, we strongly recommend a joint industry/government effort to support our global competitiveness and expand U.S. auto exports. To accomplish this, we, too, urge the swift completion of a modernized NAFTA that includes, among other improvements, acceptance of vehicles built to the U.S. auto safety standards and enforceable disciplines against currency manipulation. We also urge the Administration to consider new free trade agreements with our allies while expanding U.S. auto export opportunities by knocking down trade barriers our American automakers currently face abroad.

These suggestions, as well as several other recommendations, are described in further detail in the written comments AAPC submitted on behalf of America's automakers. We urge you to consider the analysis set forth in our written submission, and we look forward to working with the United States Government to advance our shared goals of further strengthening the U.S. auto industry and our nation's economy.

Thank you.

MS. PARK-SU: Thank you, Mr. Blunt.

Mr. Welch?

MR. WELCH: Thank you, and good morning. My name is Peter Welch. I'm the President of NAD, the National Automobile Dealers Association. NAD represents more than 16,800 franchise automobile and commercial truck dealers, representing both domestic and international brands that sell new and used motor vehicles, engage in service, repair, and part sales throughout the United States.

Last year our dealer members sold 17.1 million new cars and an additional 15.3 million used cars. In the aggregate, we employ over 1.1 million Americans in well-paying jobs and are responsible for at least that many indirect jobs through suppliers, contractors and others.

Franchise dealers are retailers. They stock, sell, and service what the American consumers want to buy, own, drive, and, more importantly, what they can afford.

I would like to share with you today a new study that was released this morning, in fact, by the Center for Automotive Research that we commissioned. A copy of the study is attached to the written version of my testimony, and I suggest that you look at it and use it as a resource.

But, before I turn to the new study, I would like to reiterate two important issues that were covered in our written comments. First, NAD believes there is no basis for a finding by the Department that the importation of autos or auto parts to the United States threatens the country's national security. Second, NAD recognizes the importance to the United States of leveling the trade playing field, eliminating unfair trade practices, and keeping America's automotive industry strong. We are committed to working with the Administration in pursuit of those goals, and our written comments set forth a number of alternative strategies to do so.

Now, turning to the study, let me first say that the Center for Automotive Research is the premier economic research firm in the automotive world. The Center's new study is bifurcated into six different scenarios. It looks at, first of all, the imposition of a 25-percent tariff, a 10-percent tariff, and the alternative 80-percent quotas, if imposed on import autos and auto parts from all countries.

And then, it examines the same scenarios if imports from Canada and Mexico were excluded.

Now here are some of the key findings:

If a 25-percent tariff were applied to all imported vehicles and auto parts, and 100 percent of that tariff were passed on to consumers, the following would occur: the average price of all new cars sold in the United States would rise by $4400. Prices would rise $6,875 for imported vehicles and $2,270 for U.S.-built vehicles due to the imported part content. Annual new vehicle sales would plummet by 2 million units. U.S. Gross Domestic Product would fall by $59.2 billion, and nearly 715,000 Americans would lose their jobs. For dealerships alone, annual revenues would fall by $66.5 billion -- that's about $4 million per dealership -- and 117,000 dealership employees would have to be laid off. That's about 10 percent of our workforce.

A 25-percent tariff on all imported autos and auto parts would harm everyone, auto manufacturers, dealers, consumers, and the economy as a whole. But the hardest hit would be our customers, including the over 2 million active and reserve military force members and their dependents.

The average price of a new car already hovers around $35,000. According to Edmunds, in the past year interest rates on new car loans have risen 86 basis points and now average 5.82 percent, with more increases on the horizon.

The average monthly car payment for a new car now stands at $533 a month with an average loan term of 69 months. Our customers are already strapped to make those payments. A $4400 tariff on top of that would increase new car payments to $611 a month -- that's $78 a month more -- and put the purchase of a new car out of the reach of many Americans. New tariffs or quotas would also reduce competition and consumer choice, increase the cost of used vehicles, and raise the cost of getting vehicles serviced and repaired.

So, what's NAD's request today? Only that the Administration fully and carefully consider not only the new study we are submitting with my testimony, but that all the data analysis provided to the Department during this investigation be reviewed carefully. As a nation, we can and should work together to address genuine trade concerns without hurting American consumers and small businesses.

On behalf of NAD, we thank you for your consideration.

MS. PARK-SU: Thank you, Mr. Welch.

Ms. Dempsey?

MS. DEMPSEY: Thank you.

Mr. Secretary, Members of the U.S. Government Panel, my name is Linda Dempsey, Vice President for International Economic Affairs at the National Association of Manufacturers. The NAM is the largest manufacturing association in the United States, representing 14,000 manufacturers, small and large, in all manufacturing sectors across all 50 states.

Not only does manufacturing employ 12.7 million men and women across this country, but the average manufacturing worker earns more than $82,000 annually in pay and benefits, about 27 percent higher than the average earnings for all non-farm jobs.

The NAM is committed to achieving a policy agenda that helps manufacturers grow here in the United States and create new jobs, which is exactly why we welcome the opportunity to provide input today.

Manufacturers agree with the President on the need to promote free and fair trade. Since the challenges to free and fair trade are commercial in nature, manufacturers also believe that those challenges are best addressed effectively with targeted tools designed to address them, either those tools that exist already or new ones, such as innovative new trade agreements. Let me explain why.

The U.S. manufacturing economy has hit its stride over the past year, with solid growth in demand, output, and hiring, and as the NAM's quarterly manufacturing outlook survey continues to show, a strong outlook for the future. Domestic production and jobs have increased, as have exports of manufactured goods generally and automotive exports specifically. Indeed, our country's automotive sector, as you've just heard, is strong and growing, and U.S. automobile and automotive parts production have expanded substantially over the past several decades.

International trade and investment, unsurprisingly, have been critical to that robust growth. This includes foreign investments and it includes not only exports, but also imports. Both manufacturers and consumers benefit substantially from imports that help drive innovation, productivity, and a stronger economy overall. Of particular note in this regard are imports of raw materials, components, and other inputs that enable manufacturers to produce high-value goods more competitively here in the United States and support higher-paying jobs.

Where, however, import competition is fueled by foreign market-distorting practices, discrimination, that put our manufacturers, our workers, and communities at a disadvantage, the NAM has long supported robust U.S. Government action to address the underlying causes of those distortions. We believe that the tools I referenced a moment ago and in my written testimony represent the best way to advance the important goals we share with the Administration of promoting free and fair trade and protecting U.S. national security. That is because the broad, unilateral import restrictions, be they tariffs or quotas, that a Section 232 investigation could authorize, however well-intentioned, would ultimately be counterproductive, giving an edge to foreign production at the expense of U.S. manufacturing.

Negative impacts from tariffs or quotas include the following:

Import restrictions will increase the cost to manufacture in the United States. A tariff of 25 percent on the importation of automotive parts, for example, could increase the average cost to manufacture a passenger vehicle in the United States by about $2,000, if, as the AAPC calculates, 35 percent of the value of the average automobile, about $8,000, is made of imported parts. Tariffs on parts will also increase cost to other things made in America from a wide range of other manufacturers for ag equipment, construction, mining, and marine equipment. A tariff would also increase the cost to import the average passenger vehicle into the United States by about $5800.

Import restrictions will also reduce exports. The increased cost to manufacture vehicles and some major automotive parts will reduce export opportunities as foreign producers will not face similar cost increases. And we also would expect to see foreign retaliatory action in the form of new tariffs on U.S. exports.

Import restrictions will reduce

domestic production, jobs, and consumer demand. Import restrictions will increase cost to manufacture. With higher cost for domestic and foreign automobiles, demand for these products, as you have just heard, is expected to decline, meaning fewer U.S. automotive sales, reductions in production, and job losses. Import restrictions will also reduce domestic demand for other manufacturing sectors that rely on the U.S. automotive sector.

No one doubts that challenges exist in international trade. The question is not whether to address these challenges, but how. Manufacturers believe that the approach I have outlined today and in my written testimony represents the best way forward, best for the automotive sector, best for the manufacturing industry, best for manufacturing workers and communities, and best for the country we love.

The NAM looks forward to continuing to work with the Administration on advancing these goals as part of our ongoing efforts to grow U.S.

manufacturing.

Thank you.

MS. PARK-SU: Thank you, Ms. Dempsey.

And at this time, I would like to open the floor to the United States Government to ask any questions that the panel may have.

MS. BAMBAS: We appreciate everybody's comments. And I personally want to say that I appreciate our common position, that we are all interested in enhancing the strength of the U.S. automotive industry.

To some of the points about the economic data, we appreciate your sending economic data. We're in the process of reviewing all of the data that you've provided and certainly all of the comments everybody has provided.

I also wanted everybody to know that we've got a number of economists that are looking at the economic implications of any potential remedies. So, to supplement what you're providing, we are also doing very rigorous analysis on our end to look at the economic impacts from a variety of different angles. We want to have a whole 360-degree picture of, if there will be remedies ultimately, what those remedies will look like and how they impact the economy, all, again, with the same goal I want to underscore, of strengthening the U.S. automotive industry.

To the point about highly-sensitive information that companies have been asked to provide, a couple of points on that that are really worth emphasizing. The type of data that's been requested is pretty routine in terms of U.S. Government agencies' investigations, certainly, by the U.S. Department of Commerce and the Bureau of Industry and Security and Enforcement and Compliance in their investigations, the International Trade Commission. And the U.S. Government has very robust mechanisms in place to safeguarding that data. So, I want everybody to rest assured that that data will be safeguarded, and there is a lot of years of experience in safeguarding the data and a lot of expertise and sophistication of mechanisms. So, please rest assured that the data would be handled appropriately.

To kick it off with a question, if I may -- and this question is for all the presenters -- domestic content data suggests that foreign firms that manufacture automobiles in the United States generally tend to rely more heavily on imported auto parts for U.S. auto assembly than U.S.-owned firms. With foreign firms accounting for a growing share of U.S. automotive production, is the U.S. automotive supply chain eroding and becoming overly reliant on imports? And how does this trend, do you see, continue to the point where it may impair our national security?

MS. THOMAS: Well, I am happy to start. Again, Jennifer with the Auto Alliance.

We would, first, point out that most of the imported vehicles come from our national security allies and trading partners. Half of them come from Mexico and Canada, the rest from the EU, Japan, Korea, et cetera.

But the global nature of our industry has allowed us to compete, and it also allows us to provide a variety of products for our customers at affordable prices. I know you'll hear on the next panel, I believe, from the supplier industry, and they will speak more to the reliance on imported parts. But we would argue that the supply chain allows us to remain competitive in this global market.

MR. BLUNT: Yes, and I would just add to that. There is, indeed, a global supply chain that for certain components it's necessary to have those imports, and it does allow us access to those components, allows us to be competitive, as Jennifer said.

Our companies are very proud of the fact that we source heavily from the United States. We believe on a sales-weighted average we have about twice the domestic content as our foreign competitors. But, even with the deep roots that we have in the United States and that deep infrastructure we have and the supply chain that's so heavily focused on the United States, we're convinced that the imposition of these tariffs would, indeed, be harmful and would increase the cost for our companies to build a car in the United States by as much as $2,000. And those are for vehicles that have domestic content. Probably more than two-thirds of the domestic content is from the United States. So, we still think it would be extremely harmful, raise cost, and makes us less competitive globally as we work to export more and more product that's assembled here in America.

MR. WELCH: I would just like to reiterate a couple of points that were already made. First of all, roughly 60 percent of the content are domestically produced here in the United States. It still leaves a large percentage that's not. But the vast, vast, vast majority of those parts, it's a global supply chain. They come from trusted allies. Many are

NATO members, quite frankly, and they're very, very dependable part manufacturers. So, we see no interruption with respect to that.

And the only other point I would like to make from the retailer's perspective on this, our biggest problem right now with our customers is affordability, and the relentless drive to keep parts and vehicles affordable for Americans is crucial.

MS. DEMPSEY: Just let me expand a little bit. As I mentioned in my opening statement, imports help drive innovation. They help drive production and the success. They also help us keep higher-value manufacturing here, right, if you are importing particularly low-value parts from overseas.

Right now, in manufacturing, right, according to the Department of Labor, we have 441,000 open jobs. The biggest challenge our manufacturers are facing across the industry is finding workers to fill those jobs, with the average age of a manufacturing worker in the

United States about 55.

So, we want to have better production, higher-value production here in the United States. And that's what the imports allow us to do. The problem, the only problem with imports is when they are unfairly traded, and which the Department of Commerce certainly has the tools to address that, when they're counterfeit, where there are DHS, the ITC, and other mechanisms.

We need to make sure that all those rules are well-addressed. But, just because we're importing, that's not a bad thing. That has helped the strength of this industry grow, both for manufacturing more broadly, but the automotive industry in particular.

MS. BAMBAS: Thank you for your points. We certainly are going to look at your points in detail and, then, supplement your points with some of the analysis that we've been conducting over the course of the past many weeks.

Andres?

MR. CASTRILLON: Another question for all the presenters. As many have described in their comments, and as some of you mentioned during your presentations this morning, there's an intense global race underway to lead on advanced automotive technologies like automobile electrification and automation. These technologies will not only drive the future of the auto industry, but also may have potential military applications.

When you look at the major auto-producing nations around the world, the U.S. auto industry has much higher import penetration compared to its key foreign competitors, and foreign companies account for a much larger share of domestic auto production than in other leading auto-producing nations around the world.

How do these discrepancies impact the U.S.'s competitive position in the global race for advanced automotive technologies?

MS. THOMAS: Thank you, Andres, for that question.

As I indicated in my statement, we think that imposing higher tariffs on imported autos and auto parts will ultimately chill investment in those critical areas like automation and electrification, which hold tremendous promise for our society in regards to safety and meeting our environmental goals.

So, we would argue that there are better ways to encourage that investment and development of those technologies. For example, we are working closely with the Department of Transportation on their autonomous vehicle guidelines, their third iteration of it. That will help establish the rules of the road for driverless cars.

And we are also working and encouraging Congress to pass legislation to speed the deployment of autonomous vehicles. So, we believe that areas and efforts like that are more effective in speeding the development of those technologies and maintaining our leadership as the U.S.

MR. BLUNT: So, I believe if you look at the OECD countries, on average, our import penetration of around 40 percent is essentially the same as many of those OECD countries. And in fact, it is right at the average level.

Certainly, our companies have plants that are capable of producing millions of vehicles, and are proud of the role that they served as a part of the arsenal of democracy in the past, and always willing to work with the Department of Defense if there are key technologies that are identified that need to be safeguarded or certain capabilities need to be preserved.

We believe that, in terms of the race to create the vehicles of the future, the United States is well-positioned with a significant percentage of the automotive R&D that's spent globally being spent here in the United States, largely by our three members.

And also, a real advantage when it comes to information communication technology research and development, with the United States producing nearly half of the global research and development in that category. Much of that is now, of course, being done by firms not necessarily historically connected with the auto sector. But this is important R&D that the United States has a leadership position in.

Of course, the United States really has a perfect environment, at least a leading global environment, in terms of rewarding that sort of R&D and protecting it and providing the sort of legal environment that makes people want to invest in research and development here.

If we're going to maintain that global leadership in these technologies, we think it's critical that our companies are strong and prosperous, so that they can make those vital investments that keep the United States at the forefront of creating the vehicles of the future.

MR. WELCH: There's only so many bracing strategies you can develop if you have tariffs imposed. Okay? You can it through to the vehicles, that the tariff's going to be put on the hood of the car. You can pass it through to all of your product to try to equalize it out. You can withhold the product because the tariff makes the product too expensive. Or you can try to absorb the tariff through your profits. And, of course, R&D comes out of a manufacturer and dealer's profits. Dealers don't do R&D actually on the cars, but we're joined at the hip with our manufacture partners.

So, to the effect that there's less money to invest in R&D, and most of the R&D these days is going for safety products, for environmentally better cars, electrification, automation. It's going to be detrimental, pure and simple.

MS. DEMPSEY: Two points. One, foreign investment, as I think the very successful Select USA Conference that Secretary Ross in this building just hosted, is critical to the growth of the U.S. economy and for manufacturing and for auto manufacturing specifically.

Manufacturing that's brought to the United States by many of our trading partners in the automotive space, right -- these are our allies who are investing here -- brings with it a lot of that R&D that's being done here in the United States because of that.

If there are national security issues related to foreign investment in the United States, we have those tools with the CFIUS process that we are urging the conferees up on Capitol Hill, even this week, to update and modernize those tools as part of the FIRRMA legislation that we all want to see get done and move forward.

We have the tools already to deal with those sensitive national security issues to the extent that that is raised here. We don't need import tariffs, import quotas, to do any of that.

Second, on the issue of the import penetration, I just want to note that, when we're looking at the data, particularly the manufacturing import and export data, what we're not seeing very clearly is R&D, right? R&D is not reflected in that. What we are seeing, as Governor Blunt was saying, a huge amount of R&D being done in the United States, and that's just not reflected in the data, the import/export data that you got.

MS. PARK-SU: Thank you very much.

I believe we have two minutes remaining for maybe one more quick question from the panel.

MS. BAMBAS: I just want to make one point. We appreciate, again, the comments. I think that the distinction between CFIUS and the 232 investigation, CFIUS is really sort of transaction-focused and the 232 investigation is sort of looking at the national security threat for the whole industry. So, while we appreciate that the CFIUS exists, and our office plays a key role in what the Commerce Department does in the CFIUS process, we're making sure that we're not conflating the two, as part of everything we're looking at. And again, we appreciate that comment.

Do the panelists have any questions?

(No response.)

Then, I'll end with one question, and maybe, Mr. Welch, you can comment on this. What have we been doing in terms of -- I just returned from Europe, and I was really shocked to see the lack of any real presence of U.S. cars over in Europe. What has your organization done -- or, actually, any of the panelists -- to deal with the barriers that our trading partners have imposed. We talked about bringing things from allies, but what about our trading partners' barriers to getting U.S. cars overseas, so we can enhance our R&D and our competitive position globally?

MR. WELCH: Well, I might want to defer to one of the other panelists because we only sell vehicles primarily to Americans.

MS. BAMBAS: Okay. Yes, so maybe, Governor Blunt, this should be more directed towards you. Thank you.

MR. BLUNT: Sure. So, Europe is an important export market for us. If you think about our exports, about half of them go to our NAFTA partners. And we're the leading export sector in the U.S. economy, as you know from our previous discussions. About half of them go to our NAFTA partners. But Europe and China would each receive about 250,000 vehicles on an annual basis from the United States. We're exporting about a quarter of a million vehicles a year to Europe. That's a number that can grow.

That's one of the reasons that I think we think it's important at an appropriate juncture, and we would urge as soon as possible to restart the TTIP discussions, because reducing the tariffs that we have with Europe, and perhaps more importantly, providing some sort of regulatory convergence, and harvesting some of the work that's already been done in the TTIP process, could help us to grow and expand that number.

MS. PARK-SU: Thank you.

And with that -- actually, do you want to --

MS. THOMAS: If I could just echo Governor Blunt's comments?

MS. PARK-SU: Yes, please.

MS. THOMAS: We would strongly support and encourage the Administration restarting the negotiations with the EU to, hopefully, conclude a bilateral trade pact there, because it's critical to really make a push to try to reduce those trade barriers that are on both sides of the Atlantic. And we were making tremendous progress just a few years ago on that front. And so, a lot of work has already been done, and we can build on that work.

MS. PARK-SU: Thank you, Ms. Thomas.

And with that, I'm going to call time on the first panel.

Thank you very much.

Now I would like to welcome the second panel to the stage. For the second panel, we have the Motor & Equipment Manufacturers Association, Ann Wilson; Specialty Equipment Market Association, Daniel Ingber; Auto Care Association, Bill Hanvey; the Certified Automotive Parts Association, Clark Plucinski; UAW, Jennifer Kelly, and the Automotive Body Parts Association, Christopher Northup.

Great. Well, welcome.

Ms. Wilson, whenever you're ready.

MS. A. WILSON: Thank you.

Good morning. My name is Ann Wilson, and I'm the Senior Vice President of Government Affairs for the Motor & Equipment Manufacturers Association. Thank you for the opportunity to appear before you today.

MEMA represents more than 1,000 vehicle suppliers that manufacture new, original equipment and aftermarket parts, components and systems, for use in passenger cars and commercial vehicles.

Vehicle suppliers are the largest sector of manufacturing jobs in the U.S., directly employing over 871,000 Americans in all 50 states. For the past several years, supplier manufacturing jobs have actually been increasing, up 19 percent since 2012. This is in large part because of the supplier investment in new, innovative technologies that are dependent upon a global supply chain.

MEMA is very concerned about potential outcomes of the Department's investigation and would strongly oppose implementation of tariffs on imported passenger vehicles and motor vehicle parts. The message from our industry is clear. The importation of motor vehicle parts is not a risk to our national security. However, the imposition of tariffs is a risk to our economic security, jeopardizing supplier jobs and investments in the United States.

Last week we surveyed our automotive original equipment suppliers about the impact potential tariffs would have on their businesses and what actions they would take. Almost 80 of the respondents said that a 20-percent tariff on imported automotive parts would have a net negative impact on their businesses. Respondents indicated that they would cut U.S. jobs, cut or delay U.S. R&D investment, shift production outside of the U.S., and/or modify sourcing, in reaction to the tariffs. Most job cuts would occur within the first six months of the tariffs, while investment and sourcing decisions would occur throughout the first year and beyond. The results of the survey are deeply troubling and should be of concern to this panel.

MEMA member companies operate in an integrated global supply chain with both suppliers and customers inside and outside of the United States. This model has contributed to continued growth in vehicle protection and jobs here in the U.S.

Now I would direct your attention to some of the charts that are in our written testimony. First, Tier 1 suppliers provide 77 percent of the content value of new vehicles. These suppliers are dependent on inputs from around the world which allows them to work with vehicle manufacturers to provide new technology to consumers. This, in turn, provides important jobs in the United States.

The supply base is widely shared among vehicle manufacturers. Gone is the time where a supplier is only a supplier to one vehicle manufacturer. For a Tier 1 to be successful, they have to have a variety of customers.

Furthermore, suppliers are dependent on cost-effective components in order to provide consumers with new technologies in a competitive manner. Suppliers and vehicle manufacturers will have little choice but to move production elsewhere if access to cost-effective inputs is constrained.

And finally, as this demonstrated, new technology manufacturing is often completed in a 10-year cycle. To put it bluntly, if we lose the opportunity to develop and manufacture new technologies in the U.S., we will have little opportunity to recoup the losses for a decade.

It's important to consider this impact, as the previous panel talked about, on the impact of research, development, and deployment of automated technologies. If the industry is unable to import inputs because of tariffs, that work will be done elsewhere.

Moreover, the impact of tariffs or quotas are going to be felt up and down the supply chain. Thus, smaller, more localized companies, which are typically Tier 2 and Tier 3 suppliers, are likely to feel the pinch of increased costs immediately. As our survey respondents indicated, job cuts would occur within the first six months after imposition of the tariffs. Many of our members have privately indicated that they would need to make changes in their workforce in even less time. Keep in mind that many of these same suppliers already feel the impact of a 40- to 50-percent increase in steel and aluminum costs, as well as tariff inputs from China.

MEMA does support other alternatives

to reassure jobs in the U.S., including actively engaging with our trading partners to reduce tariffs and focusing significant resources towards workforce training to fill existing manufacturing and engineering jobs.

In closing, the imposition of tariffs will have a negative impact on U.S. vehicle parts suppliers. This will impact employment, and, in turn, weaken the U.S. economy.

Thank you for the opportunity to testify, and I look forward to your questions.

MS. PARK-SU: Thank you, Ms. Wilson.

Mr. Ingber?

MR. INGBER: Hi. Good morning. My name is Daniel Ingber. I'm the Managing Director of Government and Legal Affairs for the Specialty Equipment Market Association, or SEMA. SEMA welcomes this opportunity to testify to this matter and to provide you with information about our industry and why imports of specialty auto parts do not pose a national security risk.

Based in Diamond Bar, California, SEMA

is the principal organization representing the specialty equipment aftermarket. Our membership includes more than 7500 businesses that manufacture, distribute, market, and sell specialty auto parts. It contributes about $43 billion to the U.S. economy annually, and approximately 92 percent of SEMA members are small businesses. The industry employs over 1 million Americans.

SEMA believe in fair and reciprocal trade and supports efforts to protect national security. However, SEMA opposes the potential imposition of tariffs on automobiles and auto parts contemplated under this investigation. The tariffs would significantly harm our members, leading to lost jobs and higher costs for consumers.

The market for automotive parts generally falls into three categories: OEM, or original equipment market parts, the replacement part aftermarket, and the specialty market. SEMA members market specialty auto parts. Such auto parts are primarily for comfort, performance, safety, or customization. The parts are for add on after the original sale of the motor vehicle. They are purchased primarily by hobbyists and collectors. Examples of parts range from custom wheels and tires to exhaust systems, suspensions, turbochargers, lighting equipment, and mobile electronics. Specialty auto equipment is installed on all types of motor vehicles, domestic and international.

After World War II, returning soldiers used their engineering knowledge to improve the performance and appearance of our then-aging automobile fleet by inventing specialized parts for their cars. This activity spawned our quintessentially American industry, the specialty auto part, which is closely identified with the United States and celebrated American pop culture.

Today, a significant segment within the industry is parts for collector cars, a symbol of America's love for cars. From pre-War classics to street rods and 1960 muscle cars, these vehicles stand as a testament to American ingenuity and craftsmanship. They also serve as a resource for contemporary automobile design and a source of recreation for millions of enthusiasts and collectors.

Given the nature of the specialty parts market, there is no nexus between a manufacturer of specialty equipment aftermarket parts and national security. The specialty parts market is comprised mostly of domestic small businesses and does not implicate the industrial capacity of our country. Consequently, the imposition of any Section 232 tariff on specialty equipment aftermarket parts would provide no appreciable benefit to national security, while at the same time leaves a loss for domestic manufacturing jobs.

Access to international markets is essential for U.S. automobile and auto parts industries to remain competitive. Specialty parts manufacturers rely on longstanding global supply chains to procure parts and materials that they, then, use for manufacturing in the United States. Auto parts manufacturers spend consider resources in identifying, vetting, and equipping suppliers. Most of these manufacturers are small businesses that cannot absorb 10- to 25-percent tariffs on the importation of component parts and continue to function, let alone grow their business, nor could they weather the disruption in their supply chains.

As a practical matter, many manufacturers already face increased cost and disruption due to the steel and aluminum tariffs, as well as the Section 301 tariffs which have now taken effect. The impact of these combined tariffs have been higher production costs for U.S. manufacturers, resulting in the potential loss of domestic jobs.

U.S. automobile and auto parts manufacturers are thriving in the competitive international marketplace. The imposition of additional tariffs, as well as the increasing uncertainty in the international trade environment, will divert U.S. manufacturers from investing in research and development on new technologies and lead them to merely trying to survive.

SEMA members' products are generally a discretionary purchase tied to the enthusiast's love for his or her automobile. The 2008 and 2009 recession had a devastating impact on member sales, with the industry contracting by over 20 percent each year, leading to lost businesses and lost jobs. While the industry is once again thriving, the tariffs now being imposed and contemplated are already having a negative impact.

Rather than oppose additional tariffs, SEMA urges the Trump Administration to support policies that encourage U.S. exports while removing barriers to fair and reciprocal international trade. SEMA is confident that its members and the rest of the U.S. automobile industry can continue to thrive in the international marketplace under fair, open, and predictable conditions, producing jobs for U.S. workers and high-quality, affordable parts for consumers.

Thank you for this opportunity to share our concerns and recommendations.

MS. PARK-SU: Thank you.

Mr. Hanvey?

MR. HANVEY: Good morning. I'm Bill Hanvey, and I am proud to be President and CEO of the Auto Care Association, which is the voice of the $392 billion-plus auto care industry. Our nearly 3,000 member companies represent some 150,000 independent automotive businesses that manufacture, distribute, and sell motor vehicle parts, accessories, tools, equipment, materials, and supplies, and the local shops on the corner of Elm and Main that perform vehicle services and repairs.

Commonly referred to as the automotive aftermarket, our members represent greater than 70 percent of the vehicle repairs and maintenance conducted every single day. The U.S. auto care industry is a strong and integral sector of the U.S. economy, employing 4.6 million people, 3.2 percent of the workforce, and comprising 2 percent of the nominal GDP in 2018. We are a technological industry with a stable growth rate averaging 3.2 percent per year, with only one down year occurring during the recession of 2008.

As you know, the auto industry has an international footprint and comprises integrated supply chains that are long and global. Our industry relies greatly upon imports, including raw materials and intermediate goods, to remain competitive, while supporting a broad range of U.S. jobs.

The imposition of additional tariffs on imported autos and auto parts would have a significant impact on the U.S. economy and jobs, our global competitiveness, and U.S. consumers and their families. We can give examples where our industry provides a better choice for the consumer while adding both management and manufacturing jobs to the U.S. economy.

A recent economic study completed for the Auto Care Association found that a 25-percent tariff on imported auto parts would cause a reduction of 17,800 jobs in the auto parts manufacturing sector, resulting in $1.4 billion in lost wages. The study further predicts that 6800 jobs would be lost by vehicle repair jobs, those shops on the corner of Elm and Main, and an additional 85,200 jobs would be lost in the auto care wholesale and retail segment due to underperformed vehicle maintenance. These are mostly small, family-owned businesses, like that shop on the corner of Elm and Main, that would suffer severe economic harm, should a 25-percent tariff be levied on autos and auto parts.

Additionally, the auto industry operates on a global platform, where goods are rarely designed, manufactured, and consumed in one country. Countries have become more efficient and productive when specializing in certain tasks, resulting in parts and components crossing borders multiple times before final assembly.

Imports help lower costs and improve product quality, allowing our industry to remain competitive domestically and export globally. Because sourcing determinations are made months in advance and years in advance, even minimal adjustments to tariffs would require a significant investment and would force our members to modify their supply chain, find new sources for parts, and likely face new capacity or quality issues. The resulting costs of the tariffs likely will be passed on to the end consumer in higher parts and repair prices that may result in the consumers delaying critical vehicle maintenance. These factors and disruptions could cause companies to be less competitive in the U.S. and global markets while posing a safety risk on our roads.

In conclusion, we support the Trump Administration's efforts to improve U.S. competitiveness in the global marketplace, but strongly recommend that the Administration refrain from trade restrictions that would undermine the auto industry. We urge the Administration to seek solutions that protect U.S. investments, facilitate trade, and create competitive value chains that benefit the global growth of our industry.

We appreciate the opportunity to testify today, and, obviously, we're available for questions.

MS. PARK-SU: Thank you.

Next, Mr. Plucinski?

MR. PLUCINSKI: Good morning. My name is Clark Plucinski, and I serve as the Chairman of the Certified Automotive Parts Association, commonly known as CAPA. On behalf of the CAPA members, which include insurers, consumers, collision repairers, and distributors, and the general motoring public, I'm grateful for the opportunity to testify today.

Joining me in the audience is Mr. Snyder from the PCI, or Property Claims Insurance

Association of America. Together, we urge the Department of Commerce to consider the unintended impact of potential automotive parts tariffs and the cost of auto insurance repair claims.

We believe the impact of any tariffs on certified automotive parts will have a significant adverse effect on the economic impact for the consumers, especially the auto repair providers, the businesses, and industry as a whole.

Unlike commodities that may be subject to the 232 tariffs, automotive parts are for specific vehicles. So, you cannot simply obtain these parts for a domestic source, as you would steel or aluminum. Tariffs would likely cause disruption in the supply chain of replacement parts and could impede the ability of the vehicle owner, collision repair facilities, and the auto insurers, to promptly repair vehicles and get them back on the road. One of our more serious issues is the delays.

In 2017, 31 individual countries

exported more than $100 million in automotive parts to the United States. While the country of origin will vary depending on parts and the repair, any increase in the cost of parts will increase the cost of the repair.

To illustrate this point, each year approximately 15 percent of the vehicles that are involved in accidents cause damage to one or both vehicles. Consider that about 60 percent of the automotive parts are imported. PCI has estimated that 25-percent tariffs could increase insurance vehicle damage cost by as much as 2.7 percent, or $3.4 billion. That estimate is included in the joint written comments submitted by PCI along with the other insurance trade associations.

Keep in mind that the estimate only reflects insurance claims cost. It does not reflect the increased cost that would be borne directly by households and businesses that pay for repairs on their own, and many of that does occur today because of the increase in the deductibles and higher levels of deductibles that cause more people to have to go out and take care of the repairs out of their pocket. Nor does it consider the cost incurred by those whose vehicles become a total loss, which is a large percentage, about 10 percent of the total. Maybe as much as 12 and as high as 15 percent with the aging fleet become total losses.

It should be noted that the motor vehicle theft rates will rise, as many stolen vehicles are sold for their parts. Of course, the parts themselves are worth more than the vehicle as a whole.

Further impact will be felt in the economy as a whole. Workers in the United States depend on their automobiles for their daily transportation needs, getting to their job, making sure their children get to school, and the myriad of other tasks.

Vehicles need timely repairs and maintenance. Any delays or cost increase to safe repairs and maintenance will have a negative consequence. Consumers facing yet another demand on their budgets could find themselves having to make dangerous choices.

On behalf of the consumer, the thousands of businesses that provide certified aftermarket parts, and the major insurers, we ask the needs of the hard-working Americans who are consumers are fully considered in the Department's analysis regarding the importation of automobile parts.

We urge the Department of Commerce to look for ways to open global markets and increase exports. To increase the price of automotive parts and causing delays will cause harm to most Americans.

Should the Administration impose restrictions on imports, we urge the Administration to exempt closely-aligned markets and supply substantial percentages of automotive import parts or to establish a process through which interested domestic parties can petition for exemptions in a timely and transparent manner.

Again, thank you for the opportunity today.

MS. PARK-SU: Thank you.

Ms. Kelly?

MS. KELLY: Good morning. My name is Jennifer Kelly. I'm the Director of Research for the United Automobile Workers. I would like to thank you for the opportunity to share the UAW's comments on the Commerce Department's Section 232 investigation on autos and auto parts. The UAW represents workers in both auto assembly and auto parts manufacturing.

Decades of disinvestment and offshoring of U.S. jobs by multinational corporations has weakened our economic security as a nation and has inflicted great harm on American workers and communities. Massive job losses have had ripple effects throughout our communities, idling able-bodied workers, weakening local economies, and diminishing tax revenues.

Trade has also hurt workers at the

bargaining table, where wages and benefits have been held hostage to the threat of moving work to low-wage countries like Mexico and China.

We believe a comprehensive investigation into the impact of the loss of auto manufacturing and its consequences for national security and economic well-being is long overdue. Over the past several decades, the U.S. automotive and auto parts trade deficit has grown significantly. In 1997, the U.S. had a global auto trade deficit of $57 billion. By 2007, that deficit had ballooned 60 percent to $91.5 billion. By 2017, it had grown an additional 38 percent. In total, over the past two decades, the U.S. automotive trade deficit has grown 121 percent.

In more concrete terms, we have seen the number of assembly plants and the quantity of vehicles produced in the U.S. fall, even as sales have remained about the same. In 2000, the U.S. produced 12.8 million vehicles and employed about 1.3 million workers. In 2017, production fell to

11.2 million vehicles and employment was about 940,000. In 2017, we also know that the U.S. imported 2.5 million vehicles from Mexico, where wages are one to three dollars per hour. 2.5 million vehicles is about eight assembly plants worth of production, and a typical assembly plant employs 4,000 workers or more.

We've also seen an increase in auto parts for the vehicles produced in the U.S. To give a general sense of the magnitude of parts imports, in 2000, the U.S. imported $28 billion of parts, or about $40 billion worth in 2017 dollars. With 12.8 million vehicles produced, that's about $3,000 of imported parts per vehicle produced in the U.S. In 2017, imports grew to almost $67 billion and production fell to 11.2 million vehicles. So, that's nearly $6,000 of imported parts per vehicle produced in the U.S.

What isn't captured in these numbers is the change in sourcing of these parts that's occurred over the last two decades. In 1996, high-wage countries like Canada, Japan, and

Germany provided nearly 70 percent of imported parts. By 2007, the majority of all parts imports were produced in low-wage countries like Mexico and China. So, not only have U.S. jobs been displaced by imports, but the remaining U.S. workers' wages have been depressed by competing with low-wage countries.

Our concern about trade and industrial policy as it applies to the auto industry goes beyond the past and the present to the future. Much of the production footprint of tomorrow's advanced automotive technology is overseas. Today the U.S. only produces 13 percent of the world's semiconductors. By 2021, it's projected that the U.S. will produce only 14 percent of the world's lithium ion batteries.

This is important because these components are key to the electric vehicles and autonomous vehicles of the future. For example, it's estimated that an EV or AV will have over $1,000 worth of semiconductors, and a lithium ion battery costs about $15,000 per vehicle.

American manufacturers are competing against firms in South Korea, Japan, Taiwan, and, increasingly, China. We would argue that this is also a threat to U.S. manufacturers' ability to provide our military with cutting-edge technologies.

So, at the conclusion of this process, it's our hope that the Trump Administration will take targeted measures to boost domestic manufacturing. We know the automotive industry is a global industry with long, complicated, well-established supply chains. We caution that any rash actions could have unforeseen consequences, including mass layoffs of American workers, but that doesn't mean we should do nothing.

Thank you.

MS. PARK-SU: Thank you.

Mr. Northup?

MR. NORTHUP: Thank you, Jennifer. Thank you, the rest of the panelists.

Good morning. I'm Christopher

Northup, representing the Automotive Body Parts Association and its membership of parts distributors, consumers, collision repairers, manufacturers, and insurers.

ABPA is made up of independent collision parts distributors along with the above group of constituents who are part of the service industry and supply chain that keeps America's personal and commercial vehicles in use every day.

Trade barriers or tariffs, as part of national security, or any other heading, will negatively impact the automotive economy and the millions of private sector jobs affected by cars and trucks each day in our country.

Over 4 million U.S. citizens are employed in some form of the automotive sector. Over 700,000 of those reside in the parts space. That is, plastics, electronics, formed or cast metal part manufacturing, and the related logistics and distribution workers who deliver those products every day.

Conservative economic estimates place the employment multiplier for OEM carmaker activities at 10, with related automotive employment at 4. Disruptive tariffs risk this contribution to the overall economy and workforce.

It's easy to ask, have we really considered the outcome of tariffs as they disrupt the automotive space? Parts and related services are the fuel that keeps the repair process in motion and productive. The risk to increasing part costs or tariffs threatened our ability to effectively and economically repair America's vehicles.

National security is a real and valid concern. U.S. Customs and Border Protection enforce laws and enact search and seizures effectively each day without the use of tariffs. At risk is an annual blue and white collar household income and tax revenues related to these automotive-affected jobs.

Tariffs as proposed will greatly harm

the U.S. automotive economy and the overall economy. Free trade has long been the backbone of the global economy. Competition is embedded in our American spirit. America's ability to manufacturer certain parts and products changed decades ago, with the knowledge of the advantage of global sourcing as part of that change.

The repair of consumer and commercial vehicles uses replacement parts sourced from many points around the globe. The delivery supply chain and the economic advantage provided keeps Americans that work stay employed, provide for family, and contribute as taxpayers. Tariffs as a means to correct trade imbalance without understanding the unintended consequences would merely serve to harm international relationships and cause American households to suffer. Taxes and tariffs didn't work long ago in Boston and have no place here today.

The Administration needs to consider the impact of tariffs on the greater motoring public, the transportation sector, plus those connected dots that support our overall economy. This issue is about keeping America great, but not disrupting it. We object to the proposed tariff, as tariffs only serve to harm America's automotive economy.

Thank you for this time, and appreciate everything you guys do for us.

MS. PARK-SU: Thank you, Mr. Northup.

Now I would like to open the floor for any questions or comments from the U.S. Government.

MS. BAMBAS: So, again, we appreciate everybody's comments, and we certainly appreciate everybody's desire to enhance the strength of the U.S. automotive and certainly the auto parts industry.

And we appreciate your contributions in terms of the economic impact. As I mentioned a little bit earlier, we're carefully looking at the data that you've provided, and then, we've got a lot of economists who are replicating the analysis, conducting their own analysis to look at the economic impact, again, from all the angles.

I'll start with posing the same question I posed to the earlier panel. But let me start with saying that a number of the panelists, you mentioned that countries have become more efficient and better at R&D in auto parts, and hence, the U.S.'s increased reliance on imported auto parts.

The first, it's a multi-component question. So, we know that foreign firms that are manufacturing automobiles in the United States are becoming more heavily reliant on foreign sourcing of auto parts. The first tier of this question is, what does this look like over the course of the last two decades? How have increases in automotive parts, especially the high-tech ones -- what does that mean for R&D that's taking place in the United States vis-a-vis abroad? How much of that R&D share, global R&D share that's happening in the United States, has it eroded, and from your vantage point, how much has it eroded? And then, to the next component of the question, which is a more general question, how do you see this impacting the long-term viability of the U.S. automotive industry?

And I'm going to open that question to all the panelists. So, thank you for your responses.

MS. A. WILSON: Those are a lot of questions in that question. So, let me see if I can sort of give a 40,000-foot view from our membership.

The one thing that's important to realize is, when we look at the tariff codes on automotive parts that are imported, there are a lot of them that are aftermarket parts that go to the shelves of retailers around the country for the vehicles that are being serviced by individuals everywhere. The average age of a car in the United States exceeds 11 years, and that's the average age. And consumers decide how they're going to maintain and repair that car in varying and different ways. So, that's one piece of what we need to look at.

But let's look at the conversation that you had a little bit with the first panel and that I brought up, too, about automated technology. So, our vehicle suppliers for the OE industry, original equipment industry, are Tier 1, Tier 2, Tier 3's. The Tier 1 suppliers are for the most part global suppliers. They situate themselves close to final assembly where the vehicle manufacturers are.

But it is also very important that they are able to get inputs from around the world in order to do research and development on U.S. roads. And what we have going on right now in automated technology is we have a wonderful opportunity. Jennifer mentioned before the legislation that is going on on Capitol Hill, plus the work that NHTSA and DOT is doing. But we have testbeds, we have work going on at the state level.

But we need to have sensors that are

manufactured not by our parts manufacturers, but by others, brought into the United States. And the real value for those sensors is when they're programmed in the U.S. As Governor Blunt mentioned before, we have IP protection, we have lots of research and development that's going on. So that, when those sensors hit our facilities, they are appropriately programmed. And then, they are used on vehicles, and we are doing testing on them.

We have a great opportunity to continue to lead the world in that. And I was just in Europe, too, and Europe understands that. And they are moving forward with their own regulatory scheme, so that they can do more testing on their roads, because they know they need to catch up. And we are all aware of what China is saying.

But what I will tell you is, one of the engineers for one of our largest suppliers says this differs from brake technology, windshield wiper technology, technology of old.

You're not going to be able to afford to do this multiple places. We can do it in the United States. We could do it in Europe. We can do it in Asia. But the cybersecurity requirements, the other technical requirements, are so expensive, firms are going to have to decide where they are going to do the developing.

And what we're hearing, and what we understand, is we may lose our leadership role if we take these types of actions, because the inputs that we need that are being developed globally will not be available in a cost-effective manner for our members.

MR. INGBER: I'd like to echo a lot of what Ms. Wilson said, but also add, our membership is 7500 businesses in the United States, most, a high percentage in the United States, over 90 percent. And the research and development is done domestically.

For understanding the way that the specialty parts market works with respect to OEM, a lot of features, vehicle technology features, safety features, comfort features, begin as aftermarket parts, options that people add to their cars after they purchase them, even performance features, those superchargers and air intakes, et cetera.

Over time, the OEMs often integrate these features into their standard automobiles that you purchase as part of your car. These tariffs would hurt the ability of these domestic businesses to do research and development and development this, which keeps the U.S. automotive market competitive.

And as for the long-term viability of the U.S. automotive market, as I explained in my comments, it's a highly-elastic market for the specialty market, and these tariffs can have a devastating effect on the actual viability of these businesses. And as it is part of a global supply chain, influences the demand for certain vehicles, particularly jeeps and trucks, which are highly modified -- people buy them to modify them -- it will have a long-term negative effect on the viability of the U.S. market.

MR. HANVEY: Thanks, Daniel.

I'm going to approach the question from two different perspectives. And you brought up a very good question about the long-term implications of the trade tariffs.

But, first, I would like to address the R&D side. We represent those companies that produce parts that are used in repair. And many of our companies also produce parts for the original equipment side as well. Many of those parts are the same part; they just go in different boxes.

However, the investments that many of our supplier companies are making in the research and development side within our group are significant. Many of the companies now have 3D printers. They have the technology. They're investing in sensors.

And I would urge many of you to visit some of these companies to see the investments that they've made, and I certainly would be able to provide some of those names to you.

But the question on the long-term viability is that we currently have 282 million cars on the road. As Ann said, they are about 11.7 years old, 11.7, Ann. But what's interesting, though, is really where we feel the focus should be is on training those Americans to be able to fix those technologically-advanced vehicles. And in order to ensure that when you bring your vehicle in to be fixed that it comes in, a part is ordered, a part is available, and it's ready within the hour in many cases within our industry. So, we feel that the focus really should be on training the American workforce to be able to meet those technological demands of today and tomorrow's vehicles. And that's critical. So, that's where we feel the effort should be spent in terms of our activities and preparing ourselves for the future.

MR. NORTHUP: Thanks, Bill.

I think, to answer your question directly about the R&D erosion, and just sort of paraphrasing that, in our industry, which is primarily focused on exterior parts -- so, when your vehicle or my vehicle is involved in a collision, our primary customer in our association is the collision repairer, commonly referred to as the body shop. I know it's not always a pleasant experience, but it's something that goes on every day and it's part of America's motoring economy.

The R&D erosion, I think when we look at the potential impact of tariffs as they're being discussed, it really could have a negative impact on the R&D piece. Because in the investment world, and in the investment dollars, that economy is going to be hurt. And so, everything will be likewise hurt or affected. And I think that's a sensitive point that doesn't always -- it's in the weeds somewhere and doesn't always come out in our economic studies and everything else, but I think it's an important part.

In the aftermarket, commonly the R&D

is a shared platform. It's licensed. It's agreed upon. There's something that goes on to take place there. So, let's keep that in mind, and the aftermarket is a viable part of the automotive repair economy.

The long-term impact -- you know, I'm from Southern California, so we love our vehicles. And public transportation, although getting better, suffers mightily compared to parts of our country and parts of the world.

So, anytime we slow down or affect the automotive economy, the motoring economy, we affect the economy. We affect people's ability, as I mentioned earlier, to go to work, to provide for their families, and, yes, to pay taxes.

So, thanks.

MR. PLUCINSKI: So, you're lucky, I wear probably too many hats today. Being the old guy and semi-retired, I decided to take on this challenge of becoming Chairman of the Certified Automotive Parts Association, or CAPA.

I was a shop owner. We had 46

businesses in four states and over 700 employees, doing almost $100 million in sales. And we started out with 30,000 feet. So, trust me when I tell you that parts have always been a major issue for us.

A few years ago, our organization -- CAPA has been in place for 31 years now -- but a few years ago, when we first set out to look at these parts and test these parts, and do the work on the R&D side that we needed to do to make sure that they were like-kind quality, which is a term that's used frequently, and in many cases they were anything other than like-kind quality, very scary things happening.

But, on the R&D side, we're using the same testing facility that the OEs use to make sure that our parts are as good, if not better. So, in our case, our business and most collision repairers of any size have a lifetime guarantee. And that means something to us. We could be in severe jeopardy. If you have watched any of the recent lawsuits that have occurred, it's very scary for a repairer to be given parts that don't fit, that aren't tested, and we have problems that we find.

So, our entire focus as an organization on the CAPA side is to make sure our 65 manufacturers follow every step, and they've done a magnificent job of working with us over the years to grow.

And I believe the panel would probably agree there's almost nothing they can't do. If we ask for a certain standard, which is what we do, we get that standard. So, we're very happy with that.

MS. BAMBAS: And actually, we all probably in this room appreciate your contributions to ensuring our safety when we get into cars, too. So, thank you.

MS. KELLY: So, I'm going to make a couple of comments on kind of what's happened with parts sourcing. One, we have seen there are more foreign automakers manufacturing or assembling vehicles in the U.S. It's also an increase in parts and parts from those home countries where they want to continue doing business with some of the suppliers from their home countries.

But, more importantly, I think, is that we've definitely seen, and suppliers will advertise this as a selling point to the investment community, the pursuit of low-cost country strategies. So, they will market the fact that they can produce parts in a variety of low-cost countries, which means low-wage countries, often countries with very little labor protections. And so, that's been going on, and that hurts U.S. workers.

When it comes to thinking about the future, at the UAW we are concerned about where that auto industry will develop, and we have concerns that it will mean the U.S. isn't as important a location for future vehicles and the parts that go with that.

We think, though, that while trade is a piece of addressing that, that there are other policy prescriptions as well. And when we see Germany and China, other countries in Europe, having industrial policies that support the domestic manufacturing of the vehicles and the parts, but also support the demand side, that's one of the things we hear in the U.S., is that the demand isn't here for these EV, electric vehicles, or higher fuel-efficient vehicles. Because there isn't a mandate, there aren't the same number of incentives. So, we think that there needs to be sort of a multidimensional approach to fostering a strong domestic industry. Trade is one piece of that.

MS. A. WILSON: Could I just address the global supply chain and global competitiveness? Indeed, there is manufacturing that goes on in various places. And let's just take the NAFTA region; for instance, as we all know, wire harnesses. I'm known on Capitol Hill as the "wire harness lady" by some people because I've been carrying them around. They are, for the most part, manufactured outside of the United

States. They are very intensive-labor issues, not highly technological. But, at the same time, there are inputs into those wire harnesses that come from the United States. It's important that we keep that in this region to be able to produce those jobs, and they are mostly Tier 2 and Tier 3 jobs, like plastic connectors and things like that, that go from the United States into Mexico for final wire harness manufacturing.

But, from a U.S. perspective, there are three areas in the world that are really the global places where vehicles are manufactured, NAFTA, Europe, and Asia. Europe and Asia both have access to lower-wage countries to be able to do things like that. If we are not able to be able to have access that, we are no longer going to be able to be globally competitive.

And when you look at it that way, you say the jobs that we should try to be creating here are the ones that are higher technology, higher IP, higher skills levels, all of those types of things. And that's why you've seen the jobs in our sector actually increase. In the OE automotive sector over the last five years, our jobs have increased over 20 percent, and those are the jobs that we need to have that would be good-paying jobs for the American worker.

MR. CASTRILLON: Thanks, Ann.

Let me ask a follow-up question directly to that point, and I want to transition from talking about R&D to what the U.S. auto parts manufacturing footprint looks like in the United states. In 1985, we were a net exporter of auto parts. We're now a net importer. We have a $60 billion trade deficit in auto parts. And so, we're becoming increasingly reliant on auto parts for U.S. auto assembly.

And getting to your point about the need to have access to the low-value inputs in order to create that high-value, high-technology manufacturing footprint in the U.S., when we look at that current trade deficit, it's being, in part, driven by high-value, high-tech products like electronics and electrical components.

So, how at risk are we of not having U.S. sources, not for those low-value products, but for those high-value, high-technology products? And how at risk are we that those supply chains are currently being established in other countries, and that we're not going to have domestic sources for the types of products that both the first panel and you folks have said are the important products for the U.S. auto assembly and for the future of the auto parts manufacturing footprint in the U.S.?

MS. A. WILSON: So, if you look at electronics, for instance, a lot of what you're talking about, Andres, are the ones that come from non-suppliers. So, they are suppliers to our suppliers. They have determined to manufacture in different parts of the globe. There's no doubt about that.

But auto is only one portion of their whole footprint. So, the sensors that come in and sensors that go out of those factories, they're probably in your vacuum cleaners; they're in your lighting systems; they're in your televisions; they're in our phones; they're everywhere. The real value is when those sensors are manufactured or brought into the U.S., and then, they are actually programmed in the U.S. for whatever automated technology that we're trying to do.

Again, we do believe that there's a real value in that, and we do believe that that value is being done in the U.S. So, we are less concerned than you are about the electronics that are able to come here, except that if we no longer have that free flow of electronics, you're going to find the ability to go ahead and program those and do those other places around the world. And that's when we're going to lose jobs and we're going to lose that R&D.

MR. INGBER: I just want to emphasize that automobiles and the auto part industry is thriving right now in a very competitive marketplace. And as Ann just said, the ingenuity and the entrepreneurship of the U.S.

manufacturers and the U.S. businesses helps drive that.

Tariffs meant to address trade deficits, as other people on this panel have pointed out, that's a blunt instrument for dealing with the trade deficit. It would, in fact, backfire when it comes to being able to produce high-tech technology industries in the United and to foster U.S. entrepreneurship.

MR. HANVEY: Thanks, Daniel.

I would concur with Ann and Daniel on that.

I think there's a couple of things here. Making sure that we keep our allies close, NAFTA, Mexico, Canada, that's an integral part of the supply chain, and we have to make sure that we keep them close as well.

I think intellectual property protection is something that we all would agree upon here that really would cement our relationship around the globe, ensure that our research and development is protected, the investments that we make here in the U.S. on the technology side, whether we decide to produce that here in the U.S. or some other region. But we have to ensure that that IP is protected, and I think that that's an important thing that we really haven't addressed here. That goes hand-in-hand with what we're talking about. I don't want to speak for everybody here, but I think that everybody would be in support of that as well.

MR. NORTHUP: Yes, I agree with everyone. I could almost do what they said.

You know, that point we brought up earlier on R&D, and bring up here again, is the development, the technology, the creation is occurring here in our country. The outsource of manufacturing is a decision that's made downline. And then, on the rebound effect, it's programmed here.

So, I think that supply chain in itself must remain intact for us to have an effective automotive economy. And that's sort of, again, one of those critical pieces that can get overlooked.

MR. PLUCINSKI: I don't really have anything to add. Thank you.

MS. KELLY: So, I share the concern that you articulated. I think in my comments I pointed to two pieces, in particular, semiconductors and lithium ion batteries. Assuming that the trajectory we're on comes to fruition where we have electric vehicles in our future, it means the loss of engines and transmissions. Those are two big pieces of automobiles today that employ a lot of workers domestically. They tend to be sourced where the vehicle is assembled, by and large.

And so, when we think of what the effect on U.S. employment is, the workers who are making engines and transmissions today, their jobs will be eliminated when we make a transition to electric vehicles. The replacement power train, if you will, is the lithium ion battery and a motor. Those products are not, by and large, produced here.

So, we look at considerable net job loss just in that technological transition. And so, I think while R&D is important, programming is important, I think having the physical ability to produce those products here in the United States, not in the NAFTA region -- I mean, NAFTA is useful, but a job in Mexico is not a job in the U.S. And so, I think that thinking about where that supply chain gets developed is very important, and I have very real concerns about what the future holds in that vein.

MS. PARK-SU: Thank you.

Any other questions? Comments?

(No response.)

Well, that's time for the second panel. Thank you.

Now I'd like to welcome to their seats the third panel for this morning. Webasto Roof Systems, Dr. Holger Engelmann; Miller & Company, Marshall E. Miller; Hyman, LTD, Mark Hyman; Cosdel International Transportation, Mark Hyman, on behalf of Martin Button; Polaris Industries, Paul Vitrano.

Thank you.

If I can remind our panelists to please speak into the microphone? Our interpreters are having a hard time hearing. So, if you can speak into the microphone, we'd appreciate it.

Without further delay, I'm going to start with Dr. Engelmann, whenever you're ready.

DR. ENGELMANN: Good morning to all of you, and thank you very much for giving me the opportunity to present our point of view with regards to the Section 232 investigation, as an automotive supplier with a significant U.S. footprint.

My name is Holger Engelmann, and I am the CEO of the Webasto Group, one of the world's leading automotive suppliers, based in Germany.

We have totally six sites in the U.S., including our Regional Americas Headquarters based in Rochester Hills, Michigan, and we currently employ more than 1,800 highly-skilled employees in this country.

We have been supplying the world's automotive industry for nearly 100 years and have continuously expanded our presence here in the U.S. since the 1970s. And we just have added a new member to our U.S. company family by making a strategic acquisition, AeroVironment's Efficient Energy Systems business segment, which is headquartered in Monrovia in California. And our new colleagues are really important to be a solution supplier for the automotive and industrial charging sectors and are also conducting significant research into innovative battery applications.

Webasto continues to be committed to further expanding its footprint in the United States. We are enormously loyal to our U.S. employees whom we call colleagues, and not just staff or employees.

Furthermore, Webasto has always been at the forefront of innovation for the automotive industry, and we are currently experts in diverse fields of sunroofs/moonroofs, you call them, convertibles, fixed-roof panels, and heating systems. As noted above, we are now investing in e-mobility solutions like batteries, chargers, as well as new sunroof technologies.

We, Webasto, provide our products to nearly everywhere in the world, including all the U.S. manufacturers. And our production facilities here in the U.S., they utilize approximately 200 products from U.S. suppliers located in the U.S. And we guarantee long-term employment for their employees and further growth in their respective businesses.

And it's part of our overall philosophy that we source as much as possible in the countries where we are manufacturing our products. So, we sell our product in the U.S. We purchase our components in the U.S.

We have over the last five years successfully localized more and more parts in the U.S. As a result, we have reached a localization rate of more than 80 percent. But further localization is very difficult. This is because of the need for extensive expensive investments into suppliers who are currently not able to deliver according to OEM standards or whose prices are not competitive with regards to the constant cost pressure we have in our very competitive industry. Therefore, paying tariffs on parts we must continue to import will make our products manufactured here less attractive and could negatively impact any future investments in the U.S.

By current projections, we're asked to risk incurring an additional 12 to 18 million U.S. dollars annually with the new policy. We would face a situation which puts enormous pressure on our U.S. facilities, and this potentially could lead to costs and measures, including no further investments, no R&D in the U.S., and, also, a significant workforce reduction. Alternatively, we could try to pass the cost increases through to our U.S. customers.

Based on our experience, this could be challenging and undesirable.

So, let me summarize. In general, the timing and suggested reasons for this investigation are particularly troubling. The automotive industry has been thriving in recent years. The 25-percent tariffs would again add uncertainty and will economically harm the automotive industry operated in the U.S., and it may also raise the cost for U.S. consumers.

Personally, I truly believe that tariffs are not in line with your current foundations of this great nation. You have taught us after the Second World War in Germany how important free trade and open markets are, and we learned. That will always be a driver of your nation's success. Therefore, I hope that you will take the right decisions based on your country's belief.

Thank you again for your time. I'm happy to answer if you have any question.

MS. PARK-SU: Thank you.

Mr. Miller?

MR. MILLER: My name is Marshall Miller. I am the President of Miller & Company.

On behalf of our clients and myself, my testimony focuses on a very small segment of what you're looking at, and that is the vintage car motor vehicle industry, which I don't believe anyone even considered when the initial documentation was sent out. But the motor vehicle industry and parts, this 25-percent duty would have an enormous negative impact on the vintage motor vehicle industry in the U.S.

Our law firm is solely focused on import/export and Foreign Trades Zone law, and I have been doing this for 48 years. I represented most of the original equipment manufacturers when they established their assembly plants in the U.S., starting in the 1970s. So, I have a wide range of knowledge about the motor vehicle industry and the growth of the motor vehicle industry and parts. But all this was focused on establishing foreign trade zone status, which the

Department of Commerce and the Foreign Trades Zone Board here in this building worked with.

But I'm also a collector of vintage cars, have some 17 of them. One of them -- and I put it as an exhibit -- is from the Trade Expansion Act of 1962 -- the original Chicken Moore pickup truck, where this all started. This is a 1963 Volkswagen crew cab pickup truck. And when I found it in Rochester, New York, 25 years ago, I had to have it, because I've used it constantly in this building, at Treasury, and at Customs for various examples. It's a very good truck. There aren't very many of those because, once the duty went on at 25 percent, no more were imported into the United States. That was 55 years ago.

And so, I caution this panel as you're considering this, all of this is always supposed to be temporary. That's what the Trade Expansion Act of 1962 envisioned. This is still in effect 55 years later.

The vintage motor vehicle industry is

estimated to be between a $80 and $160 billion industry. There are some 28 million vintage vehicles in the United States, and they represent a wide range of vehicles from $10,000 in value to $70 million in value. It doesn't matter if you have a 25-percent duty rate against a $10,000 car or a $70 million car; it still stops the business and the parts that are related to it.

There are approximately, we believe -- well, not "we believe"; we know -- nine harmonized tariff schedule numbers that will relate to all types of motor vehicles that would be vintage vehicles or used vehicles, and at least 16 HTS chapters, because parts, of course, are all over the waterfront from the standpoint of their HTS classifications.

The industry involves the import, restoration, display, sales, and export of motor vehicles. Nationwide, millions of U.S. citizens are engaged in vintage motor vehicle restoration, sale, distribution, collection, and display.

The Section 232 national security

investigation to determine the effect of motor vehicle imports and parts should not in any manner involve vintage motor vehicles and parts. They just should be excluded from your report. They are irrelevant to any kind of issue involving national security. These are vintage vehicles. There's no threat to the national security by these. It would cause an extraordinary negative chilling effect.

I've also included, besides a photograph of the first example of this law being used in 1963, several articles from vintage magazines, publications that have been published in the last few weeks, indicating that, if this were to go into effect, the industry would be significantly reduced and it would be a very major effect on a wide range of people with absolutely no national defense implications.

We believe there are ways of managing this effectively from the standpoint of the technology of the import process and the ACE system. Already that has been implemented for other trade actions in 2018, and there can be note in the HTS for this particular thing to exclude these types of vehicles.

For these reasons, we believe that vintage motor vehicles and parts should not be part of this investigation, should be excluded, and have no relevance.

Thank you.

MS. PARK-SU: Thank you.

Mr. Hyman? And, Mr. Hyman, would you mind pulling the microphone in front? Thank you.

MR. HYMAN: Good morning. My name is Mark Hyman. I'm the owner of Hyman Limited Classic Cars in St. Louis, Missouri. Hyman Limited, is one of the largest vintage automobile dealers in the United States.

The purpose of my appearance here today is to request an exemption for classic, vintage, and collector grade vehicles and parts from the proposed 25-percent tariff on all imported vehicles and parts, regardless of age or origin, being considered under the Section 232 national security investigation of imports of automobiles and auto parts.

I would first like to provide a brief background on myself and my business. Starting in 1989, I began building Hyman Limited from the ground up. My business started with the purchase of one car, which, incidentally, I sold to an overseas buyer and exported. Nearly 30 years later, and thousands of transactions later, I have built one of the largest businesses of its kind in the United States. Hyman Limited is highly active in the global vintage and collector car trade in the U.S., EU, Middle East, South America, and Asia. At times, as much as 70 percent of our business has taken place on an international level in the buying, importing, and/or selling and exporting of vintage automobiles.

According to NewOak Capital, an investment banking firm that focuses on the vintage vehicle industry, classic vehicles encompass an $80 to $160 billion industry with interest in all 50 states. Hagerty Insurance, one of the world's leading specialty vehicle insurers, estimates that as many as 29 million classic or vintage vehicles exist in the market. Every one of those vehicles will require parts and other maintenance items, many of which are manufactured outside of the U.S.; thus, subject to the proposed 25-percent tariff.

Americans alone purchase more than $1.5 billion worth of vintage vehicles at auction, which represents just 5 percent of total annual market activity. If these 25-percent tariffs are allowed to proceed, the resulting slowdown of trade and fall of vintage automobile values will have a lasting negative effect on our economy.

Our industry encompasses not only dealers like myself, but also auction houses, restoration shops, parts manufacturers and retailers, insurance companies, importers, exporters, transportation and trucking companies, freight forwarders, customs brokers, and countless small businesses and individuals who support what we do every day.

The proposed tenfold increase of duties on vehicles and parts will, in all likelihood, put a stop to the importation of collector vehicles. Likewise, I am also seriously concerned that retaliatory tariffs will be imposed by our trading partners, which has the potential to halt exports in a similar fashion. Such restrictions will cause American interests to be effectively cut off from our international partners. In turn, the cost to buy, sell, and restore vintage vehicles will soar, which, in turn, will cause, or has the potential to cause, values to collapse.

As an example of the potential ripple effect, our industry relies upon the travel and hospitality industries for support during the hundreds of events held across America on an annual basis. Shows, rallies, public auctions, museum events, and similar events, support the local economies of the cities and towns that graciously host us. These events have the potential to attract hundreds of thousands of visitors and their dollars from around the world. But they rely on a healthy classic car market. With a collapse of the industry, fewer and fewer of these events will be viable, and the economic impact will trickle down to the host cities and even to the numerous charities that benefit from our events.

In conclusion, the proposed tariffs on vintage vehicles and parts have the potential to cripple a multibillion dollar industry that relies upon a healthy and open trade environment free of unreasonable boundaries. The importation of vintage vehicles and associated parts poses no threat to national security, and the imposition of the proposed tariffs would only serve to harm American businesses and individuals.

One final note. Every year since at least 2009, both Congress and the Senate have passed unanimous resolutions -- for instance, Senate Resolution 574 from 2018 -- designating a

July date as Collector Car Appreciation Day, expressing support for and emphasizing the importance of the vintage vehicle industry, specifically recognizing that the collection and restoration of historic and classic cars is an important part of preserving the technological achievements and cultural heritage of the United States.

MS. PARK-SU: Thank you, Mr. Hyman.

MR. HYMAN: Thank you.

MS. PARK-SU: Now, Mr. Hyman, I believe you are going to be speaking again on behalf of Mr. Martin Button from the Cosdel International Transportation?

MR. HYMAN: I am. Mr. Button was unable to attend due to health issues.

MS. PARK-SU: Whenever you're ready, sir.

MR. HYMAN: This is a statement of Mr. Martin E. Button, President of Cosdel International Transportation. The purpose of this appearance is to request an exemption from the proposed 25-percent customs duties under Section 232 for imports of vintage motor vehicles and parts.

We do not believe there is a justifiable national security basis to impose any trade measures under Section 232 on imports of vintage motor vehicles and parts. Cosdel International is focused on importing and exporting classic, collector, and vintage motor vehicles and parts, as a licensed customs broker and trade forwarder. Cosdel represents a wide range of auction houses, major collectors, dealers, museums, and hobbyists in the U.S., and had done so since the mid-eighties.

The vintage motor vehicle and parts industry is a multibillion dollar enterprise in all 50 states. Nationwide, millions of U.S. citizens are directly engaged in vintage motor vehicle restoration, sale, distribution, collection, and display. The industry, or hobby, as it is more generally known, involves the ownership by individuals and families and many

Section 501.(c)(3) museums of a wide range of vintage motor vehicle cars.

These individuals are involved in the display of these vehicles in all 50 states for the public, a wide range of events where the vehicles are driven in tours and races, and vigorous vehicle restoration business nationwide to restore and maintain vintage vehicles.

There are numerous museums throughout the U.S. that display vintage motor vehicles. Just like art museums, vehicles are shipped globally for display in museums, vehicle shows, and restoration throughout the world. The purchase and sale of these vehicles and parts are by individuals as well as by auction companies and firms engaged in buying and selling.

Vintage motor vehicles are provided for in the following nine harmonized tariff schedule headings and parts for such vehicles, and are covered by more than 16 chapters: 8701 tractors -- I'll spare you these details.

(Laughter.)

The national security investigation will determine the effect on national security of motor vehicle and parts imports. Allowing imports of vintage motor vehicles and parts cannot in any manner be viewed as a threat to national security. A significant portion of the vintage motor vehicle and parts industry involves individuals and families that are focused on the history and design of vintage motor vehicles. The interest in the import, restoration, sale, and export of vintage motor vehicles in no manner involves any threat to national security.

The impact on the vintage motor vehicle and parts business by the imposition of Section 232, additional customs duties up to 25 percent, could be overwhelming. Generally, values for vintage motor vehicles and parts will range from just a few thousand dollars to tens of millions of dollars. The most valuable car ever to change hands sold recently to a major American collector for $70 million. This sale would certainly not have happened if that 25-percent duty were imposed.

The national security investigation to determine the effect of motor vehicle and parts import should not in any manner involve vintage motor vehicles and parts. There is no threat to the national security, and the negative impact on the vintage vehicle industry in the U.S. would be enormous.

As the preeminent shipper of classic and collector cars in the world, we ship collector cars worldwide on a daily basis, both importing and exporting, via a large array of carriers by air and by ocean. Many of these shipping lines and airlines are U.S. flag carriers, and we generate many tens of millions of dollars' worth of freight for these carriers, supporting their viability and longevity in competing with foreign carriers. In this way, the importation and exportation of collector and classic cars supports the national security by keeping U.S. carriers in business.

Since the notice was published, there

have been several articles published by key publications in the vintage motor vehicle and parts industry. Attached as exhibits are articles from Hemmings and Automotive News. Both of these articles make it clear that the impact of the proposed additional customs duties will be overwhelmingly negative.

Thank you.

MS. PARK-SU: Thank you, Mr. Hyman.

Mr. Vitrano?

MR. VITRANO: Good morning. My name is Paul Vitrano. I'm Senior Assistant General Counsel for Polaris Industries. Polaris is an American manufacturer and the global market leader for power sports vehicles, including ATVs, snowmobiles, and off-road vehicles. Polaris also is the largest supplier of specialized ATVs and ORVs for light tactical mobility to the U.S. military.

The company is headquartered in Minnesota. We have over 8700 U.S. employees across facilities in 39 U.S. states, including vehicle and engine factories in Alabama, California, Indiana, Iowa, Minnesota, and Wisconsin.

I'm here today to request confirmation that the scope of this Section 232 investigation does not cover consumer ATVs, snowmobiles, and ORVs or U.S. military ATVs and ORVs for light tactical mobility, such as those manufactured by Polaris. Assuming that is the case, I wish to draw your attention to some specific recommendations in our written comments which will ensure that ORVs and their associated parts are not unintentionally covered by the Department's final determination.

The clear intent of this investigation is to focus on the potential national security threat posed by imported automobiles, to include cars, SUVs, vans, and light trucks, along with the parts used in such vehicles. Purpose-built off-road utility vehicles, like the Polaris Ranger, and off-road recreation vehicles, like the Polaris RZR and Sportsman, are neither functionally similar to, nor competitive with, automobiles. These vehicles are designed for off-road use and are not intended to be driven lawfully on roads.

Since off-road vehicles are fundamentally different from automobiles, it appears that ORVs and ATVs are not intended to be covered by this investigation. That said, in the recently-concluded Section 232 investigations on steel and aluminum, the scope of the investigations was ultimately defined with reference to broad six-digit subheadings within the HTS US. If a similar approach is adopted here, the structure of the tariff schedule is such that it may result in ORVs being unintentionally included within the final scope of the investigation.

If it is the President's intention to focus this investigation on conventional on-road automobiles, we have provided specific recommendations in our written comments regarding how the scope may be defined to avoid encompassing products such as ORVs, which should be excluded. Specifically, we ask two things.

First, however the scope is defined with respect to tariff classification, the Department should expressly limit the scope of the investigation and any resulting action to four-wheeled vehicles satisfying federal safety and emissions standards which permit unrestricted on-road use. This limitation would not exclude any conventional cars, SUVs, vans, or trucks, but would ensure that ORVs and other vehicles manufactured by Polaris are not inadvertently included.

Second, the investigation's applicability to auto parts and components should be limited to such parts as are actually used in in-scope vehicles. This will ensure that parts and components of ORVs, items like 16-inch tires with aggressive off-road treads or ATV suspension components, are not unintentionally covered.

Finally, as noted, Polaris is the largest supplier of specialized ATVs and ORVs for light tactical mobility to the U.S. military. I would like to emphasize two points with respect to these military vehicles.

First, these vehicles are commercial off-the-shelf and are produced in U.S. factories, but they benefit from the company's global supply chain. The vehicles and their parts and components are classified under HTS codes in common with passenger cars. So, like our consumer ATVs and ORVs, they are at risk of inadvertently being within the scope of this investigation.

Second, as a U.S. military supplier, Polaris typically produces over 2,000 military vehicles per year. In the event of a national security crisis, however, Polaris has the infrastructure and capability to increase production substantially in order to support increased demand by our military.

Thank you for your time and consideration.

MS. PARK-SU: Thank you, Mr. Vitrano.

And at this time, I would like to open the floor to the U.S. Government for any questions or comments.

MR. READ: Good morning. Bob Read with the DoD.

My question is, as an actual manufacturer for off-road vehicles for the military, what I am trying to get a sense for is, how much of the supply chain that you utilize in your off-road vehicles actually coincides with the supply chain for automobiles?

MR. VITRANO: Quite a bit of that supply chain is overlapped, because the history of off-road vehicles, it's a relatively new segment. If you look at the HTS codes, there are specific codes for snowmobiles and ATVs, but off-road vehicles, which are more broadly defined as our Ranger and RZR products, RZR of which we supply the U.S. military, are much more recent vintage. And so, as a historical legacy, they were lumped in with similar auto codes, both at the vehicle level and, also, many of the parts share common codes with automobile components.

MR. READ: So, as a little bit of a follow-up to that, okay, in terms of the technologies, do you find that, from a technology standpoint, a lot of times you're borrowing the technology from the automotive industry to incorporate into your off-road vehicles?

MR. VITRANO: There certainly is some overlap as a result of the fundamental footprint of the vehicles, but there's a lot of innovative technology that goes into our vehicles and the suppliers that support us. A big key to our success in recent years, as we've been growing exponentially, has been our R&D investment in our particular industry. We view ourselves as the global leader in that, and we have many, many engineers and engineering dollars spent in the U.S. to support that unique vehicle program.

MR. READ: So, from the technology standpoint, especially those that you're incorporating in your systems, okay, at a high level could you identify what some of those types of technologies may be, such as possibly composites or various other kinds of things that you're utilizing?

MR. VITRANO: Yes. I'm certainly not an expert in our engineering --

MR. READ: Okay.

MR. VITRANO: -- but I can say that stability in handling is an important aspect of our vehicles, one of the reasons why the military chooses them. So, suspension components are very important, the electronic controls of the vehicles. The ECUs, and the other throttle-by-wire technologies that are incorporated, some of which are similar to autos, some of which are different for our specific application are among those components.

MR. READ: Thank you very much.

MR. VACCARO: I have a question for Dr. Engelmann. I'm going to try to get all your facts of your supplier base. You have a data point, the reduction of your sourced parts from Europe is down 17 percent, in China down 86 percent within the last three years. Could you elaborate on that point?

DR. ENGELMANN: Yes. I mean, as I said before, the philosophy of us is always to produce in the country where we sell our products and also to source in the country, in the region where we produce them. So, our philosophy is always to do the manufacturing in the region we sell. That's ours overall. And then, we actually pick up the suppliers we need and see how competitive they are.

So, we found out by qualification of suppliers in the U.S. that we were able to really shift the share of imported parts produced in the U.S. from, I think, roughly, 60 percent up to 80 percent. But, at one point of time, you come to a range where you don't find sufficient suppliers anymore. And therefore, 20 percent still is getting imported, either from Mexico or from Europe, because they're very specialized.

Or sometimes you have a case where you have a common part which is used in different rules across the world. And normally, you have a tool to produce that. For example, if you have a quantity of a million and one reaching 800 are utilized, then you will not set up a second tool in the U.S. Then, you import this part out of, for example, China or Europe into America. It could be vice versa, but if it's mostly used in the U.S., then the tool sits in the U.S. And then, you export these parts into the other regions.

So, if you would force us to produce these parts in the U.S., we have to add an additional tool, a lot of investment, which is never utilized for the market we serve here. And therefore, it's always this is the supply chain where we really try to optimize this.

And overall, still the 20 percent would have a really significant impact on our total P&L. So, we have to adapt. And as you know, the overall profit range in the automotive industry is not very high. It is very likely that we have to pass this through to our customer, which, then, finally ends up in higher sales prices for cars, which, then, of course, will hit the consumers.

MR. CASTRILLON: Another question for Dr. Engelmann, and I want to take advantage of your expertise as a Tier 1 automotive supplier. I noted in the last panel, and you mentioned in your comments the importance of positioning the United States as a leader for the future electrification of vehicles, and I noted to the last panel that we have a very large trade deficit in auto parts trade and that a significant chunk of that is made up of electronic components and electrical parts.

And I'm wondering, to your point about positioning the U.S. as a leader for those technologies, how do you view the U.S.'s current position as a leader for the future electrification of vehicles? And should we be concerned that the supply chains for key components for those products, and for electrification generally, are being established largely outside of the United States?

DR. ENGELMANN: When we got to electronic components, first of all, from the R&D side, this was also part of their question, where is the R&D sitting? And it is in the U.S. For example, in our case we have really R&D locally. So, we have our R&D capabilities for the U.S. customers here in the U.S. So, we have an R&D center here with all the testing. So, this is, for example, not in Europe or not in China. It's really in the U.S. And we've tried to be as near to the customers as possible.

In regards to electronics, the one reason, especially if you've got to go to what's e-mobility, we saw, for example, that in the charging business, the U.S. has very capable companies. So, therefore, we bought one company, and we're going to expand our center, for example, for the charging business. In the future we are going to base this in the U.S., and we will also do the lead engineering and lead R&D in the U.S.

So, this is always a balance, and we see a lot of strength, especially if it goes to a software development, a lot of, also, hardware development in the U.S., where this is really a strength of the U.S. So, I do see really a kind of good balance of competence across the globe for specific areas. And honestly, I don't see so much the threat for the U.S. regarding e-mobility because you have a lot of strength in electronics. I think you're very competitive here.

MR. CASTRILLON: Thank you.

MS. PARK-SU: Any other questions?

(No response.)

Thank you very much.

At this time, I'm going to call a five-minute bathroom break.

(Whereupon, the above-entitled matter went off the record at 10:52 a.m. and resumed at 11:00 a.m.)

MS. PARK-SU: Thank you very much.

I'd like to take this opportunity to

welcome our fourth panel this morning. The National Association of Foreign Trade Zones, Erik Autor; Center for Freedom and Prosperity, Brian Garst; the National Taxpayer Union Free Trade Initiative, Bryan Riley.

Mr. Autor, whenever you're ready.

MR. AUTOR: Thank you. Thank you.

My name is Erik Autor, President of the National Association of Foreign Trade Zones. NAFTZ is the voice of the U.S. Foreign Trade Zones Program created by Congress in 1934 to help U.S.-based companies be more globally competitive, maintain U.S.-based manufacturing and distribution activity and jobs, attract investment and employment opportunities into American communities, and boost exports through special duty benefits and customs procedures.

FTZs account for a significant portion of total U.S. trade, 5.2 percent, or $76 billion, of U.S. goods exports and 10.2 percent, or $225.3 billion, of U.S. goods imports in 2016. Over 420,000 American workers are directly employed at

FTZs in all 50 states and Puerto Rico.

On behalf of NAFTZ and its members, my testimony focuses on the national security issues in this investigation under Section 232 of the Trade Enhancement Act of 1962 and the impact on automotive companies manufacturing in U.S. Foreign Trade Zones if Section 232 tariffs are imposed on imported automobiles and automotive parts.

The automobile and auto parts industries are among the largest and most important users of the FTZ Program and are a major FTZ manufacturing and export success story. FTZ manufacturers in the automotive and part sectors have been instrumental in creating, preserving, and expanding many thousands of American manufacturing jobs and reviving and growing state and local economies in communities like Spartanburg, South Carolina; Cincinnati, Ohio; Montgomery, Huntsville, and Birmingham, Alabama; Smyrna and Chattanooga, Tennessee; Canton, Mississippi; Indianapolis, Indiana;

Georgetown, Kentucky, and Charleston, West Virginia. BMW and Mercedes Benz manufacturing in FTZs in South Carolina and Alabama are the two largest exporters of American-made automobiles.

The sole focus of Section 232 as a trade-restrictive measure is on national security, meaning production for defense and defense readiness and an imminent threat to national security. There is simply no evidence that the U.S. auto and auto parts sectors face an imminent crisis so profound as to imperil their continued existence and ability to supply vehicles or parts to the U.S. military. Nor does this country face an imminent national security threat, including the risk of a trade embargo, requiring that U.S. demand for autos and parts be filled entirely by domestic production to the exclusion of imports.

All indices show that the U.S. automotive sector is healthy and competitive, including strong sales, profits, employment growth, and stock performance. Indeed, in 2017, General Motors experienced one of the largest stock surges in its history, based on its pioneering work in electric cars and artificial intelligence for autonomous vehicles, hardly the signs of a company in dire peril.

In short, we do not believe there is any justifiable national security basis to impose trade measures under Section 232 on imported autos and auto parts. The more real and imminent threat to the U.S. automotive sector comes from Section 232 tariffs artificially imposing significantly higher costs on making automobiles in the United States. The result will be diminished global competitiveness of the U.S. auto sector, decreased export sales, higher prices depressing U.S. auto sales, strong disincentives to manufacture in the United States, undercutting core FTZ Program policy goals, and an estimated direct net loss of 158,000 American jobs. BMW is already considering moving part of its U.S. production to China, one of its main export markets, to mitigate the impact of U.S. tariffs and avoid retaliation against U.S.-made products. These are costs this country can ill afford, all to solve a non-existent problem.

Finally, a critical issue for FTZ manufacturers is to ensure finished goods substantially transformed in a U.S. zone are treated as U.S. origin and are explicitly exempted from additional duties in this and all trade remedies actions. We've noted in our written submissions examples where quirks in the FTZ entry requirements have resulted in zone-manufactured goods being flagged for duties in the Section 201 cases on washers and solar cells and panels and Section 301 cases on imports from China.

The Department addressed this issue with Presidential Proclamation language in the Section 232 cases on steel and aluminum stating, "Articles shall not be subject upon entry for consumption to the duty established in this proclamation merely by reason of manufacture in a

U.S. Foreign Trade Zone." This or the language we recommended in our written submission are critical to ensure that additional duties are not inadvertently imposed on final products made in the United States.

Thank you for your attention.

MS. PARK-SU: Thank you, Mr. Autor.

Mr. Garst?

MR. GARST: Thank you.

Good morning. My name is Brian Garst. I am here on behalf of the Center for Freedom and Prosperity, a Virginia-based, taxpayer advocacy group. Our objective is to ensure that the interests of consumers are represented, but we also believe that their welfare and the nation's security are deeply intertwined.

Traditionally, Section 232 investigations have been limited to strategic resources and components used for wartime activities, mostly under the assumption that heavy reliance on imports could leave us vulnerable to shortages, should they become inaccessible. The nature of global markets today is such that this scenario is likely to occur only in extremely unusual cases. As such, these investigations have been rare and enacted remedies rarer still.

The current investigation represents a radical departure from past practice. There is no clear national security nexus for automobiles or automotive parts, nor any reasonable expectation that modern warfare would necessitate that the industry's infrastructure be rapidly redeployed toward wartime production.

The entire investigation, in other words, is based on a primarily economic argument that global competition weakens American industry. This is not merely a weak basis on which to conduct a Section 232 investigation, but one that is profoundly and dangerously wrong.

The idea that an industry is strengthened by shielding it from global competition is at odds with centuries of experience with tariffs and other failed protectionist policies. As economist and CFP Chairman Daniel Mitchell highlighted in his submitted comments, "Jurisdictions that are the most pro-trade, like Hong Kong and Singapore, enjoy rapid growth and very high levels of prosperity. Likewise, nations that impose high levels of protectionism, like Australia and New Zealand after World War II, stagnated and fell behind. Both have since seen positive results after dismantling trade barriers."

At his core, protectionism harms consumers by making them pay more for goods of equal or lesser quality. While in certain circumstances it can provide short-term benefit to an industry, albeit, typically, if you dispense not just the foreign competitors, but also other domestic industries, in the long run even the protected industry suffers, as reduced competition lessens the need to innovate and adapt.

To see why tariffs are also harmful to national security, we need only observe the effects already taking place in response to the recent imposition of tariffs on steel and aluminum imports. They have strained relations with key allies, sparked retaliation, harmed other domestic industries, and lowered overall welfare with rising prices on a variety of consumer goods.

These negative economic effects are entirely predictable and are why the bar has always been high for Section 232 investigations. To offset the many downsides, the national security benefit for imposing consumer taxes on imports must be clear and significant. There is no credible argument that tariffs on automotives and parts can meet that hurdle.

Far from enhancing our security position, automotive tariffs would undermine national security. America maintains the world's largest and most powerful military force. Thanks to a robust and unmatched economy that has long embraced free trade and today accounts for 25 percent of global GDP, the U.S. was able to spend more on defense in 2017 than the next seven highest-spending countries combined.

The implications should be obvious. The stronger the economy, the more resources are available for spending on defense. The corollary is that policies which harm the nation's economy weaken its defense by reducing what is available for the defense budget. This is why General Mattis and many other experts argue that the national debt is the nation's greatest security threat.

The Tax Foundation estimates that 25-percent tariffs on auto imports could amount to as much as $73 billion in new taxes on consumers, reducing after-tax incomes for the year by almost half a percent. The Peterson Institute for International Economics estimates production in the relevant industries would fall 1.5 percent and cost 195,000 U.S. jobs, or, if other countries retaliate with their own tariffs, as all evidence suggests they will, it would be a 4-percent production decline and a loss of 624,000

U.S. jobs.

Thanks to the compounding effect of growth, even modest reductions in economic growth today can amount to potentially hundreds of billions in fewer taxpayer dollars for future defense budgets.

For all these reasons and more, this investigation should reject attempts to enact run-of-the-mill protectionism under the guise of advancing national security interests.

Thank you for your time.

MS. PARK-SU: Thank you, Mr. Garst.

Mr. Riley?

MR. RILEY: Thank you.

My name is Bryan Riley, and I'm with the National Taxpayers Union. Established in 1969, NTU is the nation's oldest taxpayer organization.

And, Government Officials, you have my written comments. So, what I would like to do is just touch on a few highlights. Anybody who would like more details who doesn't have those written comments, we'll sure be happy to make those available.

Brian, Erik, I got here early, and I was sitting up at the corner and I had a direct view of that nice, big American flag. And I was reflecting on what it means to me to be an American. And I don't know what it means to you, or to you all, or to those of you who are here, but, to me, being an American is about freedom. And what to me differentiates being an American being somebody in Russia or China is freedom.

And I was thinking about our Independence Day celebration a couple of weeks ago, which was based on our celebrating independence from a country for reasons, among others, that cut off our trade with all parts of the world. So, those are ideals that I don't think we should lightly move away from.

We went through the online comments that have been submitted that you requested from the public. Most of the people I've heard today, if not all, almost all, think these tariffs are a bad idea. Of the online comments, roughly 98 percent say don't impose these tariffs.

As a taxpayer organization, we view them as a tax that's going to drive up costs. For those of you who can see the chart over there, don't worry about the numbers, but, to me, the important thing is the line that goes up like a rocket at the end. And that represents the costs these tariffs would impose, roughly tripling the tariffs that Americans would pay, based on our 2017 import volumes.

And that has national security implications as well. And, Brian, you touched on this to some extent. In 1983, a previous 232 investigation noted that, "Trade restrictions act as a drag on the rest of the economy, eroding the industrial base and other sectors, and undermining our ability to sustain a balanced defense effort in a national emergency."

And I think that's important. I was looking at the most recent 232 investigations of steel and aluminum. And one of the things

Commerce looked at was whether imports are weakening our internal economy. And I hope you will use that same criteria here, because I don't think a strong case could be made that imports are weakening our economy. In fact, I think imports strengthen our economy.

NTU, earlier this year, released a letter that was signed by over 1100 economists, including 15 Nobel Laureates. And this is an excerpt from that letter.

They said, "We are convinced that increased protective duties would be a mistake. A higher level of protection would raise the cost of living and injure the great majority of our citizens."

Now, to be clear, they weren't talking about auto tariffs. They weren't looking at a narrow example. But, in general, that view is almost unquestioned by economists.

And if you look around the world -- and you pointed this out, too, Brian -- the countries that are most prosperous, that have the most economic security, have one thing in common. They have the most economic freedom.

As the Federal Reserve Chairman noted earlier this week, "In general, countries that remain open to trade, that haven't erected barriers, have grown faster. They have higher incomes, higher productivities. Countries that have gone in a more protectionist direction have done worse." I think that's the empirical result.

And just last night, the Chairman of the Ways and Means Committee noted, "Nothing will weaken America more than rolling back our freedom to trade."

There's been a broad amount of research done on the impact of trade on international peace and diplomatic relations. I would urge you to consider this in your analysis. A summary of one report suggested that -- actually, this is from an earlier 232 investigation pointing out that, "The U.S. has long been a champion of a free international trading system that benefits the American people and benefits our trading partners."

So, to wrap up, I just really hope that you will take the views of the 98 percent of people who have commented seriously, that you will consider the views of the people who testify today.

And I didn't note who it was earlier that made an inaccurate statement from a trade perspective, which was talking about tariffs as "trade remedies". Tariffs are not remedies. Tariffs are the virus. They're the problem. We need to move in a direction of more international trade, more economic freedom, not less freedom.

And I hope that you will consider that. As your economists are looking at this, the overall view of economists, again, is that trade is not just good for economics, it is not just good for prosperity; it's good for our security as well.

Thank you.

MS. PARK-SU: Thank you, Mr. Riley.

And now, I would like to open the floor to any questions and comments from the U.S. Government.

(No response.)

No questions?

All right. Well, thank you.

MR. RILEY: Thank you.

MS. PARK-SU: I'd like to take this opportunity to welcome our fifth panel to take their seats. I have the Association of Global Automakers, John Bozzella; LG Electronics and LG Electronics Vehicle Components, Joseph T. Boyle; Hyundai Motor Manufacturing, Alabama, John Hall; the Korean Automobile Manufacturers Association, Kim Yong-Geun.

Mr. Bozzella, you may begin.

MR. BOZZELLA: Thank you very much.

On behalf of the Association of Global Automakers and the Here For America companies, thank you for the opportunity to speak to you today. My name is John Bozzella, and I am the President and CEO of the Association of Global

Automakers as well as the spokesperson for Here for America.

My comments today reflect the consensus views of international automakers in the United States. We represent their U.S. interests and their U.S. subsidiaries. International automakers have invested $82 billion in the United States and directly employ 133,000 Americans at 500 facilities, including 31 manufacturing operations. Together, these companies create and support jobs for 2.47 million Americans, including people employed in design, research and development, manufacturing, sales, finance, and dealership operations, as well as other businesses.

International automakers also produce nearly half the cars, SUVs, vans, and light trucks made in America last year and accounted for nearly half of U.S. exports. You will surely hear a great deal of testimony today about the economic impact of significant tariffs on autos and auto parts.

Our formal statement also outlines the profoundly negative impact of tariffs on U.S. auto production. So, I won't repeat those facts with the time I have available today.

I do want to comment broadly on the basic premise of this investigation and the idea that imports of finished vehicles and auto parts are harming the national security of the United States. First, there is simply no support for the proposition that imports of cars, trucks, SUVs, and auto parts threaten the national security of the United States. No automaker or auto parts supplier has requested protection under our trade laws, including the statute that authorizes this proceeding. Auto sales, production, and exports are, in fact, at or near all-time highs.

Second, the Department of Commerce so far has been unable to outline any theory explaining how the commercial production of cars and trucks is connected to the U.S. national security.

Third, in response to the Department's call for comments, only three substantive statements were filed, out of more than 2300 comments of all types, supporting tariffs or other restrictions on auto and auto parts imports, and that support was, frankly, tepid at best.

In addition to the absence of public support, associations representing the entire U.S. auto industry's value chain yesterday published an open letter to the President opposing the idea of tariffs and urging that this investigation be reconsidered.

The unity is as remarkable as it is unprecedented, which brings me to the extraordinarily heavy-handed effort that began last week. As you know, the Department has decided to turn to an archaic statute, the Defense Production Act of 1950, to justify a survey demanding a huge amount of highly-sensitive competitive business information from every automaker producing cars and trucks in the

United States. To my mind, this highly-intrusive, overbroad, and burdensome tactic is simply the latest evidence that the Department possesses no evidence to support the idea that auto and auto parts imports harm the national security of the United States.

The truth is the U.S. auto industry is thriving, competitive, and more innovative than ever. The automobile industry in the United States is, in fact, currently comprised of 14 major global companies. A 15th is scheduled to begin domestic production in 2021. These companies are deeply enmeshed in and are contributing to the communities in which they operate.

U.S. production capacity is as great as it has ever been and stronger now because trade and import competition have strengthened U.S. competitiveness and spurred investment. Every U.S. production facility in the industry would be available in a national emergency, and the Americans who work for international automakers are no less patriotic or willing to serve their country in a time of crisis than any other American. There is simply no basis for treating these companies and their employees any differently than any other U.S. automakers.

In conclusion, the greatest threat to the U.S. automotive industry at this time is the possibility that the Administration will impose taxes on imports in connection with this investigation. They will kill jobs and chase automotive investment and innovation overseas during a period of profound industry transformation.

Thank you for the opportunity to be before you today, and I would be happy to answer your questions.

MS. PARK-SU: Thank you, Mr. Bozzella.

Mr. Boyle?

MR. BOYLE: Thank you.

Good morning. My name is Joe Boyle. I'm the Senior Director for Business Development and Sales for the U.S. arm of LG Electronics

Vehicle Components Company, with operations in Hazel Park and Troy, Michigan.

Vehicles components represents LG's fastest-growing business worldwide. Here in the United States LG serves major automakers with advanced components, including radios, displays, telematics modules, and a full portfolio of powertrain products for electrified vehicles.

I'm here today to convey a straightforward message. The imposition of extra tariffs on imports of component parts used in the production of automobiles in the United States is a bad idea. Doing so will harm the American companies and workers that are part of the fastest-growing and most innovative segment of the U.S. auto market.

LG's story is a good example of the benefits that are being driven by the growth of the U.S. market for connected and electric vehicles. Although LG may be best known as a consumer brand for its smartphones, TVs, washing machines, and refrigerators, LG also has a thriving business supplying critical components to auto manufacturers for connected and electric vehicles.

As you may know, LG is the primary technology supplier for General Motors' U.S. production of the award-winning Chevy Bolt. Sales of battery electric vehicles like the Bolt have grown tremendously over the past five years and are expected to grow exponentially in the years ahead.

Due to the tremendous success of the Chevy Bolt, and the growth of the market for such advanced vehicles, LG will soon open a new U.S. factory in Michigan for the production of advanced electric vehicle components. Our new factory in U.S. automotive operations will provide about 300 U.S. jobs in metropolitan Detroit.

I want to emphasize that the decision to invest in a new factory in the United States was made last year. It had nothing to do with this trade case. In fact, a major influence on our decision was precisely that the U.S. has had a very open market with respect to trade in autos and auto parts.

Of course, like many companies, we invest primarily to support important customers and markets with local production. But trade restrictions in a given market make it less attractive, not more attractive, for local investment for two reasons.

First, businesses need certainty to plan for successful investments and growth. The sudden imposition of trade restrictions, seemingly as part of a short-term negotiating strategy, undercuts that certainty. Such trade restrictions do not encourage long-term investments. Rather, they raise doubts about what might come next that will imperil that investment.

Second, open markets are particularly critical in the automotive industry. It is hard imagine a more interconnected industry that depends on global supply chains. Part of the appeal of investment in the United States has been its historic reputation for open markets and the absence of unstable government policies that disrupt business.

The locations and suppliers from which automakers purchase key components changes over time due to multiple factors, including cost, quality, technology, and service. The success of global auto companies relies on having the freedom to optimize the total value proposition when making sourcing decisions. Losing free and open access to global supply chains and access to the best new technologies creates uncertainty and prevents confident future planning.

This is why I have come to Washington. LG Electronics strongly believes that imposing additional tariffs will cause damage to the incredible growth of U.S.-made connected and electric vehicles. The growth and demand for U.S. vehicles with these innovative technologies has been driven by the fact that U.S. automakers are able to offer these vehicles to consumers worldwide at competitive and affordable prices.

This competitiveness has been achieved by sourcing components from either U.S. or foreign suppliers, based solely on value and free market economic decisions. Disrupting access to global supply chains could well affect the continued ability of U.S. connected and electric vehicles to succeed in the global marketplace. For all these reasons, LG Electronics urges you not to impose Section 232 tariffs on the auto industry.

I want to end my remarks with a specific request. We ask that you please identify as soon as possible which specific components and which HTS numbers are part of this Section 232 investigation. The Commerce Department's initiation notice simply used the term "automotive parts," a phrase that is far from clear and, therefore, is subject to wide-ranging interpretations. Although Commerce's recently-issued survey actually lists several auto parts categories, these categories are themselves very broad.

This concludes my testimony. Thank you for providing LG Electronics the opportunity to share its views on this important matter. I will be pleased to answer any questions that you have.

MS. PARK-SU: Thank you.

Mr. Hall?

MR. HALL: Thank you for inviting me to participate in this hearing on behalf of Hyundai Motor. My name is John Hall, and I'm a maintenance team member in the Engine Shop of Hyundai's manufacturing plant in Montgomery, Alabama.

I've worked for Hyundai since 2005. Since then, Hyundai and its suppliers have invested billions of dollars, and I've seen firsthand how these investments have transformed the Alabama economy and created thousands of good manufacturing jobs. I've the strength of Hyundai's commitment to American manufacturing.

Like any businesses, ours has faced

challenges and downturns, but Hyundai didn't abandon its American workers during difficult times. Instead, Hyundai has stuck with America, stuck with Alabama, and stuck with the American worker through good times and bad, even when other companies in our area closed their doors. This is one reason I'm proud to work for Hyundai and to represent it at this hearing.

I've also seen how global trade is key to Hyundai's American manufacturing operations and workers. We at Hyundai believe strongly that automotive imports do not threaten our national security. In fact, it's just the opposite. Imports and exports are essential to our business and the growth of the American automotive industrial base and a skilled workforce.

Our views on this point are detailed in Hyundai's written submission, but I want to briefly highlight two of them. We believe Hyundai's imports from Korea, in particular, do not pose a national security threat to the United States. Because of the automotive commitments in the U.S.-Korea Free Trade Agreement, these commitments which were secured by the Trump Administration during a recent renegotiation covered tariff and non-tariff barriers. The White House itself has acknowledged that the new course terms would improve America's auto industry and enhance our national security. Korea and the United States also share a strong strategic alliance. We fought a war together, and that created a bond that goes back more than 60 years.

I mainly want to talk about Hyundai's commitment to American manufacturing and how it would be undermined by new tariffs. Some may view Hyundai as a foreign automaker, but I know from experience that we are an integral part of the American automotive industry. Approximately half of the vehicles we sell in the United States are made in Alabama. We export about 20 percent of the vehicles we make, and our exports have increased over the past five years, helping Alabama become the third largest auto-exporting state. These manufacturing operations directly support thousands of American jobs just like mine and thousands more directly in communities across the country.

It's important to remember that Hyundai's investment in Alabama isn't limited to just vehicle manufacturing. When Hyundai decided to make cars in the United States, it decided to make some core components here, too. For example, Hyundai makes almost 700,000 engines each year in Alabama, and Hyundai Powertech makes about 650,000 transmissions each year in Georgia. All of these parts are made by American workers. These and other investments have created an entire automotive cluster in Alabama and Georgia that didn't exist before Hyundai.

Hyundai also partners with other American companies to create innovative automotive technologies that make other contributions to U.S. economic development by supporting education and charitable causes. For example, Hyundai has funded STEM education programs and has committed $145 million to fund lifesaving research in the fight against pediatric cancer.

We and our suppliers account for about 2 percent of Alabama's GDP and directly employ about 25,000 American workers. In addition, there are another 47,000 Americans employed in Hyundai dealerships and service centers all over the country.

New tariffs on automotive imports would have a devastating effect. I am one of thousands of American workers whose livelihoods would be put at risk by a substantial tariff on automotive goods. It would not be possible to change our supply chain overnight, and a 25-percent tariff on parts would raise production costs at our Alabama factory by about 10 percent annually. This would force us to raise prices and cut production. A lot of Alabamians, my friends and neighbors, could lose their jobs.

A tariff on imported vehicles would also force us to significantly scale back our dealership networks, hurting these businesses and workers and the communities they support. At the same time, U.S. consumers would be forced to spend thousands of dollars more for a car and hundreds more on routine maintenance.

Imports are just a part of our American operation, but they are vital to success of all the others. My team members at Hyundai and I hope the Department will recognize this and conclude that automotive imports do not threaten our national security.

Thank you.

MS. PARK-SU: Thank you, Mr. Hall.

Mr. Kim?

MR. KIM: My name is Yong-Geun Kim, and I am the President of the Korean Automobile Manufacturers Association.

I want to thank the U.S. Department of Commerce for giving this opportunity to testify at public hearing on the Section 232 investigation in automobiles and auto parts.

First of all, I would like to

emphasize that the auto industry is a globalized industry with a complicated global supply chain. Therefore, the imposition of a trades restrictive tariff would adversely affect the auto industry worldwide and affect the competitiveness of U.S-manufactured automobiles, and thereby, have an impact on the U.S. economy and national security.

Secondly, the total share of automobiles imported from Korea in the U.S. market is only 4.8 percent, and at this level it will have a real impact on the U.S. economy, and that's not a secret.

Furthermore, over 90 percent of these automobiles from Korea are small cars and SUVs. So, to us, there is little competition with U.S. automobiles. By contrast, automobiles manufactured and sold in the United States by the three major U.S. automakers are mainly the pickup truck, SUVs. Those are the largest, and they are pickups that are far larger and far more comfortable than the smaller vehicles imported from Korea. Moreover, automobiles imported from

Korea contribute to a U.S. competitiveness welfare by offering a wide range of choices to U.S. customers and giving them an opportunity to purchase automobiles at affordable prices.

If the U.S.-initiated trade restrictions are imposed in the U.S. market, it will be difficult to replace the imported portion of these small cars by direct production in the United States for a considerable period of time, which would result in increased manufacturing costs and prices. This would ultimately lead to a shrinking of market and a heavier burden on customers.

Third, the import of Korean automotive parts to the U.S. are minimal, making up only 5.5 percent of total U.S. automobile parts imports. Automotive parts imported from Korea are cost-effective and the most commodity and general-purpose parts which are generally used in the production of small and medium-sized cars. Thus, far from the automobile affecting U.S. national security, these imports have reduced costs and contribute to the increase in competitiveness of the U.S. automobile industry.

Following the implementation of the Korea-USA activity, Korea's tariffs on the import of U.S. automobiles were cut in half in 2012, and then, elevated in 2016. As a result, Korea's import of U.S. automobiles from the three major U.S. automakers tripled for the last six years from 2011 to 2017. Moreover, I have confirmed that the sales of U.S. automobiles in Korea will continue to increase in years to come due to their competitiveness in the large car segment.

In closing, based on the social characteristics of the automotive industry now of countries, mainly that each country is focusing on a different segment and is complementing one another as global partners, and with the preparation of trade framework for both countries, I believe that automotive trade and cooperation between the United States and Korea should be developed in a mutually-beneficial way without any further trade restrictive measures.

Thank you.

MS. PARK-SU: Thank you, Mr. Kim.

And now, I would like to open the floor to the United States Government for any questions or comments.

MR. CASTRILLON: Well, thank you all for your presentations, and especially to you, Mr. Hall, for coming up, all the way up from Alabama and taking time away from your work. We really appreciate your perspective.

Mr. Bozzella, I want to start with you. The share of U.S. automobile production by U.S.-owned firms has dropped dramatically since 1985, from over 95 percent to under 50 percent last year. At the same time, share of domestic production, or share of production by domestic-owned firms is significantly higher in other key auto-producing nations like Germany, Japan, or Korea, for example. Also, import penetration in the U.S. is much higher, significantly higher, than in those countries that I mentioned, the other key auto-producing nations around the world.

In your view, what does this mean for the U.S. competitive position in automotive manufacturing and its impact on the economic and national security?

MR. BOZZELLA: Yes, thanks for the question. I think it's a great one.

So, a couple of things. One is the U.S. auto industry and the U.S. auto market is the most vibrant, innovative, and competitive car market on earth. There is no question about that. Fourteen, soon to be 15, car companies operate here in the United States. Yes, 10 of them, soon to be 11, are international car companies with regard to their headquarters, but they are all U.S. car companies, all innovating here, all investing in R&D here. You know, international car companies have 72 research and development facilities in 17 states here in the United States. Forty-two different models are designed and developed here in the United States. So, it is a vibrant, competitive market here, and the industry as a whole is winning as a result of that.

To your question about imports, I'm a little confused about how we're seeing the goalposts here. For the last quarter of a century, we have had a seamless NAFTA industry in North America, and half of imports, auto imports, in the United States come from our trading partners Mexico and Canada. If you take those exports, those imports, rather, out of the equation, our import penetration looks remarkably like the EU. So, what you have is, you have a market that is benefitting, U.S. autoworkers that are benefitting, and consumers that are benefitting from the free trade of NAFTA and from the innovation and competition from both imports and development here in the United States.

MR. CASTRILLON: Thank you.

MR. VACCARO: I have a question for Mr. Boyle, but maybe some of the other witnesses may want to follow up also. But, from the perspective of a large automotive parts supplier, what is the relationship in your industry between where research and development takes place and where manufacturing will later take place?

MR. BOYLE: LG Electronics has been in the automotive business for many years, and most of our research and development has traditionally been in South Korea. However, as our presence grows in the U.S. market, especially in technologies like electrification and connected vehicles, our customers are doing more and more of their development -- General Motors, Ford Motor Company, FCA are investing tremendous resources in the Detroit area especially in developing autonomous technologies, in developing electrification technologies. They need us and we need to be close to them in order to be able to serve those needs and develop future products.

So, in fact, as the business has grown, in addition to moving manufacturing and warehousing operations into the United States, we have been steadily growing our research and development facility, employing PhDs and advanced scientists to develop just those technologies that we've talked about.

MR. CASTRILLON: Mr. Boyle, another question for you. I want to take advantage of your expertise specifically as it relates to the area of electrification. I noted during the last couple of panels that we currently have a very large auto parts trade deficit. It's growing. But, if you parse it out and look at specific components and product categories, a pretty significant portion of that auto parts trade deficit is made up of electronic components and electronic parts.

And the concern that some have voiced is that, as we look at the future of the U.S. auto industry as it transitions more towards electrification, are we falling behind? Are we vulnerable to not having U.S. sources for key components as these vehicles become more electrified? And I'd love your perspective on that.

MR. BOYLE: It's a global

interconnected industry, and parts are going to be designed and manufactured throughout the world. But, recently -- and I'd say, in particular, over the past five or so years -- we've seen a definite trend at the domestic automakers -- I'll cite GM/Ford in this case -- of significantly expanding their design and development capabilities, especially in the area of software, which we've talked about as being critical to the advanced electronic components.

The OEMs that we work with are taking much more in-house ownership of that key component of the product design, to the extent that in some cases they are relying much less on their design and development partners and suppliers and doing the advanced development internally, and then, sourcing products more on a build-to-print basis. Whereas, 10 years ago, perhaps they were somewhat lacking the expertise internally, and they would rely on suppliers to provide that technological and R&D expertise.

So, I think in electrification,

connectivity, autonomy, artificial intelligence, the domestic OEMs in the United States are growing very rapidly to internalize that capability. And they are also very protective of their intellectual property. Whether they're co-designing it with a supplier or whether they're designing it internally, they are very protective of making sure that that technology cannot go to unintended places and that they are having assurances from their suppliers to that effect.

MR. CASTRILLON: Okay. And the examples that you are giving focus a lot on sort of the development and design of those products, but what about the actual manufacture or assembly of things like batteries or components for batteries? Is there a robust enough U.S. manufacturing source for those products or are we largely reliant on imports for that?

MR. BOYLE: Now, in the case of LG electronics, we supply battery packs, and that is, the first product we'll be building in our North American facility. The key components, the cells and some of the control electronics, are also sourced domestically. So, there are robust and market-competitive sources of supply of such key components in those products available in the United States.

MR. CASTRILLON: Thank you.

MS. PARK-SU: Any other questions?

(No response.)

No?

Thank you very much. Now thank you.

We are going to take a lunch break, and we will reconvene this afternoon at 1:40. If you're going to join us after the lunch break, please remember to give yourself enough time to go through security to re-enter the building. And again, we look forward to reconvening at 1:40 with our sixth panel.

Thank you.

(Whereupon, the above-entitled matter went off the record at 11:44 a.m. and resumed at 1:40 p.m.)

MS. PARK-SU: Good afternoon. Welcome

back to our hearing. Before we begin, I would like to go over, again, a few administrative rules for both our presenters and the audience for today.

For the presenters, each panel will present their testimony in the order it appears on the agenda. When you begin, please state your name and the organization or the country that you represent. You will each have five minutes to present your testimony. I will inform you when you have a minute remaining by raising a green card, 30 seconds remaining when I raise a yellow card, and you will know your time is up when I raise a red card.

Please do not go over your allotted five minutes as we hope to allow equal time for all those who are here to testify today. Please note no outside equipment such as cell phones is allowed during your testimony. Once the entire panel has provided their testimony, there will be an opportunity for the United States Government panelists to seek clarification on specific points you raised or seek further insights into your areas of expertise as they relate to this hearing.

And again, for the audience, due to time constraints, we will not be taking any questions from the audience. We ask that you remain quiet and turn your cell phones to silent mode or off during the testimony. We ask that you refrain as much as possible from entering and exiting the auditorium during the testimony.

Now, at this time, I would like to welcome our sixth panel to the stage to come and take their seats. I would like to welcome the European Union Ambassador David O'Sullivan. The government of Mexico, Ambassador Geronimo Gutierrez Fernandez. The government of Canada, Deputy Ambassador Kirsten Hillman. The government of Ontario, Canada, Minister Jim Wilson. The government of Turkey, Commercial Counsellor Mustafa Koca.

I would also like to take this opportunity to reintroduce the United States

Government panelists that we have here today. We have Nazak Nikakhtar, the Assistant Secretary for International Trade Administrator. Anders Castrillon, the Automotive Team Lead in the International Trade Administration. Michael Vaccaro from the Bureau of Industry and Security at the Department of Commerce. Robert Read, Director of Industrial Assessment at the Department of Defense. And we have Nicole Bambas from the Department of Transportation.

Ambassador O'Sullivan, you can begin when you are ready.

AMBASSADOR O'SULLIVAN: Thank you very much. Chairperson, panel, members of the committee, thank you very much for the opportunity to be here. I am, as you said, David O'Sullivan. I am the ambassador of the European Union in Washington, and I am grateful for the opportunity to appear before you today.

I am here to convey personally the very serious concerns of the European Union and its 28 members states with this investigation.

The EU believes, as in the case of the Section 232 Steel and Aluminum Investigation, that this current investigation lacks legitimacy, any factual basis, and that it could lead the United States into a breach of international law.

The European Union reiterates its firm opposition to the proliferation of measures taken on supposed national security grounds for the purposes of economic protection. This development harms trade, growth, and jobs in the U.S. and abroad, weakens the bonds with friends and allies, and shifts attention away from the shared strategic challenges that currently threaten the market-based Western economic model.

If import measures are imposed on automobiles and automotive parts, the five trading partners most affected will be Canada, Mexico, the European Union, Japan, and South Korea, all amongst your closest allies. Frankly, the notion that imports of autos or auto parts from your closest allies could threaten U.S. national security is, bluntly speaking, absurd.

The EU's written comments, submitted on the 29th of June, lay out our arguments in detail. I would just like here to recall some key points. Firstly, imports of European automobiles are stable, in line with U.S. production, and respond to market signals.

Automotive imports from the EU do not threaten nor impair the health of the U.S. industry and economy. The EU and U.S. industries specialize in largely different market segments, and over the last five years, imports from the EU have been stable and correlated to U.S. GDP growth.

Secondly, there is no economic threat to the U.S. automobile industry which is healthy and has steadily expanded domestic production in the last ten years, largely thanks to increased specialization and integration into global value chains. Imposing restrictive measures would undermine the current positive trends of the U.S. automobile and automotive parts sector, and negatively impact U.S. GDP by up to $14 billion.

This loss is likely to be multiplied by four in the likely event that U.S. trading partners take countermeasures, as already seen in the reactions to the Section 232 Tariffs on Steel and Aluminum. Import restrictions resulting from the present investigation could result in countermeasures on a significantly higher volume of U.S. exports, which we estimate at $294 billion, around a fifth of total U.S. exports in 2017.

For its part, the EU is proceeding with internal preparations in the event that the U.S. were to adopt trade-restrictive measures.

Thirdly, EU auto companies producing in the U.S. contribute significantly to U.S. welfare and employment. They are well integrated into the U.S. value chain and export about 60 percent of their production to third countries, contributing towards improving the U.S. trade balance. They provide 120,000 direct upstream jobs in manufacturing plants, and 420,000 jobs with dealers. Trade restrictions are likely to lead to higher input costs for U.S. producers, thus in effect taxing the American consumer.

Fourthly, EU auto companies foster innovation through domestic research and help develop the local workforce. Rather than threatening national security, EU companies are driving long-term economic stability and competitiveness. Almost a fifth of research and development expenditures in the U.S. were derived from foreign-owned subsidiaries. The EU automotive industry also actively contributes to enhancing the skillsets of the U.S. workforce.

Fifthly, import restrictions would be contrary to international rules. There are no exceptions under the General Agreement on Tariffs and Trade, the GATT, that justify import restrictions by a developed country to protect a domestic industry against foreign competition unless in the form of permitted trade remedy measures. Although the GATT provides for security exceptions, the scope of these exceptions is circumscribed for specific situations which are clearly absent in this case.

Sixthly, there is no national security threat from imports of automobiles and automotive parts. Without prejudice, we underscore that the national security analysis must be narrowly tailored to focus on direct threats to national security, in particular defense applications.

U.S. needs for vehicles or vehicle parts for defense or military purposes, mainly like tactical vehicles, appear to be covered by U.S.-based specialized suppliers. These operate in a niche market that is independent and unrelated to the automobile industry. As only products from the U.S.-based manufacturers are used by the U.S. military, any trade restrictions imposed on passenger cars like trucks and car parts cannot, in our view, be justified by national security.

In conclusion, therefore, I urge you to conclude this investigation with a finding that imports of autos and auto parts do not threaten U.S. national security. Thank you for your attention.

MS. PARK-SU: Thank you, Mr. Ambassador. Ambassador Fernandez, if you would not mind pulling the microphone in front of you when you speak, we would appreciate it. Thank you.

AMBASSADOR FERNANDEZ: Thank you.

MS. PARK-SU: Whenever you are ready, sir.

AMBASSADOR FERNANDEZ: Good afternoon. On June 29th, the Government of Mexico submitted written comments regarding the Section 232 National Security investigation of imports of automobiles and automotive parts initiated by the Department of Commerce.

I appreciate the opportunity provided by today's hearing to stress our position. More importantly, my comments today, as Ambassador of Mexico to the United States, reflect our honest conviction that thoughtful consideration should be given to the concerns voiced, not only by my government, but also many other within the United

States and abroad.

Allow me to summarize in the following four points. One, trade integration with Mexico is beneficial to American automobile industry. Clear rules and certainty of market access under NAFTA enable intra-industry trade and contribute to the U.S. automotive industry global competitiveness. The high degree of integration between the United States, Canada, and Mexico enables U.S.-producers to effectively manufacture and compete not unlike other regions in other countries in the world do.

The nature of modern global supply chains implies, for example, that half of the $131 billion in automotive industry trade between the U.S. and Mexico are vehicle parts shipped back and forth across borders several times before reaching the final consumer. Mexico is currently the top automobile part supplier to the U.S., accounting for about 40 percent of imports. And at the same time, the United States is Mexico's top automobile parts supplier.

The benefits of this integration are clear. Since 1990, the U.S. automobile production, the per unit value of vehicles, and the industry's overall contribution to the United States Gross Domestic Product have increased.

Two, subjecting vehicles and auto parts from Mexico to Section 232 tariffs would disrupt supply chains that make the U.S. auto manufacturers competitive. It would also harm the U.S. auto makers and consumers. The Peterson Institute for International Economics, for example, predicts that with this measure, the automotive industry of the United States could lose 1.5 percent in production, close to 200,000 jobs, and consumers would naturally pay more to buy a car, reducing those demands.

Three, imports of vehicles and auto parts from Mexico do not threaten or undermine United States national security. Applying Section 232 tariffs would be a misapplication of the Trade Expansion Act. This view, we believe, has been recently and clearly expressed by a significant number of U.S. legislators. Indeed, in 2001, the Department of Commerce, in a similar case, stated perhaps the obvious. That Mexico is a close ally and is party to NAFTA.

In any one of our international trading relations, Mexico stands firm against the use of national security arguments in an effort to restrict trade or gain negotiation leverage. We will remain diligent for any unjustified trade restriction and will exercise our rights to ensure that the Mexican automotive industry is not adversely affected.

Four, Mexico and the United States have a robust and increasingly important cooperation to indeed address our shared security concerns. Our countries jointly face security challenges. Transnational organized crime that deals with drugs, illegal weapons, and people and money stands out. Daily, our security agencies work together to stem the destructive activities of these organizations.

As the 2018 Department of State Report

on International Narcotics states, the U.S. and Mexico have one of the most extensive bilateral law enforcement relationships in the world as a foundation in which we build. Early this year, ten former commanders of the U.S. Northern and Southern Commands, in a letter addressed to the president, asserted that, and I quote, effective pursuit of U.S. security and economic interest depends on partnerships with those nations that share our borders, Canada and Mexico.

While contributing to economic growth, NAFTA has also established a framework of trust among all three parties, leading to close cooperation to address a range of pressing concerns, including drug trafficking, terrorism, cyber security, organized crime, and migration.

In sum, my comments today reaffirm our commitment to free trade, and they come from the certitude that a strong and successful United States is in the interest of Mexico as much as the strong and successful United States is in the interest -- a strong and successful Mexico is in the interest of the United States. Thank you very much.

MS. PARK-SU: Thank you. Deputy Ambassador Hillman?

MS. HILLMAN: Thank you, Madam Chairperson. My name is Kirsten Hillman. I am Canada's Deputy Ambassador to the United States, and I am here today on behalf of the Government of Canada to emphasize the benefits of our integrated auto sector and the exceptional nature of our enduring national security relationship.

In times of peace and through wars, our cooperation and reliance on each other has made us stronger.

Today, as we examine whether imports of autos and auto parts from Canada are a threat to U.S. national security, let me be clear. Rather than potentially strengthening U.S. national security, imposing tariffs on automotive imports from Canada would undermine U.S. security and would have a devastating effect on U.S. competitiveness in the auto sector.

Let me start with the economic case against new trade barriers between our two countries. For over 50 years, the United States has had tariff-free access to Canada for vehicle exports. In 2017, Canada bought $26.2 billion worth of U.S.-made autos, and a further $26.7 billion worth of auto parts, comprising over 37 percent of U.S. automotive exports. Canada is by far the top destination for the U.S. automotive sector, and Canadian cars are U.S. cars.

Auto parts and components cross the border multiple times before a car leaves the assembly line in Canada, and as a consequence, assembled vehicles exported from Canada to the U.S. contain more than 50 percent U.S. content. Allow me to repeat that. Canadian-made vehicles exported to the U.S. contain more than 50 percent U.S. content. As such, they directly contribute to U.S. economic prosperity, and our integrated supply chain ensures that we can out-compete any other producing region.

We have always stood together. During

the 2008 economic downturn, the Canadian and U.S. governments collaborated to ensure the Canada-U.S. auto sector would weather the uncertain economic environment. Together, we cooperated to protect jobs on both sides of the border.

The Peterson Institute has determined that if the U.S. moves forward with auto tariffs, 195,000 American jobs will be lost. This would reverse the current trend, which has been discussed, that has seen U.S. employment in the auto industry increase by six percent annually.

In this investigation, you are being asked to examine a specific industrial sector, automobiles and auto parts. Not tanks. Not battleships. Civilian passenger vehicles and parts. The U.S. Department of Defense does purchase such vehicles, but U.S. Military demand is a tiny fraction of U.S. auto production, by all estimates, a de minimis proportion of domestic output.

So where is the nexus between civilian vehicles and national security? There is none.

And there is no basis for finding one. In contrast, America's enduring alliances strongly support U.S. national security. Canada is one of three foreign countries that are members of the U.S. National Technology and Industrial base. U.S. contingency planners have long concluded that industrial centers in Canada are an important reserve capacity for the U.S. in the event of attacks on the U.S.

On this basis alone, this investigation must conclude that Canada could not conceivably represent any risk to U.S. national security, and by extension, Canada-U.S. auto trade does not pose a risk to national security. Canada urges the United States to recognize the wide range of benefits of an integrated North American economy, and to remove steel and aluminum tariffs on Canada.

These tariffs are already having a detrimental impact on the North American auto sector. Canada was forced to respond to this unilateral action by apply commensurate countertariffs. Should this investigation ultimately result in the application of tariffs on autos, Canada will, once again, be forced to respond in a proportional manner.

Today, you are hearing not only from Canada but from allies, that we have similarly been forced to respond to the steel and aluminum tariffs with countermeasures. If countermeasures were to be imposed by your allies in the context of the auto sector, the number of U.S. jobs lost would rise from 195,000 to 624,000 high-paying manufacturing jobs. These jobs could be lost to the U.S. forever.

Canada's priority is and has always been to work with our American friends to strengthen the integrated Canada-U.S. economy and to ensure that our auto sectors flourish together. No country is more interested in the prosperous United States than Canada, which is why we are committed to strengthening our partnership in a modernized NAFTA. Maintaining open trade in autos and auto parts between our countries is crucial to the economic well-being of our companies, our communities, and our workers, which in turn supports our collective security.

We urge you to reflect on these matters as you prepare your recommendations. Thank you.

MS. PARK-SU: Thank you. Mr. Wilson?

MINISTER WILSON: Well, thank you, and may I begin by thanking Deputy Ambassador Hillman for sharing Canada's position and just stating that Ontario stands shoulder to shoulder with you and our federal government. I am Jim Wilson, the Minister of Economic Development Job Creation and Trade in the government of Ontario, Canada.

On behalf of Premier Ford and the province of Ontario, I would like to thank you all for the opportunity to be here today to reiterate what I know we all know, that Canada and the United States have the greatest trade relationship in the world, one that has led to economic growth, productivity, and a fully integrated auto sector that is more profitable, innovative, and robust.

Ontario is a proud trading partner to the U.S. In fact, Ontario is the number one or number two export destination for 28 U.S. states. Ontario is the economic engine of Canada and the hub of Canada's automotive industry. In fact, the vast majority of Canada's auto manufacturing occurs in Ontario which borders the Great Lakes region. This region, which includes Michigan, Ohio, Indiana, and Illinois, functions as an integrated automotive production network.

Ontario's auto sector is deeply integrated with U.S. production in these states. Canadian firms have invested $1.7 billion in the U.S. between 2012 and 2018, creating and sustaining thousands of U.S. jobs across many states. For example, Magna International, headquartered in Ontario, employs 27,125 people in the U.S., and since 2011, they have created more than 8,400 jobs across eleven states.

Martinrae employs 5,000 people in

Indiana, Kentucky, Michigan, Mississippi, Missouri, and Tennessee. That is twice as many as they employ in Canada. The integration of our auto sector is of enormous benefit to both our countries, our countries businesses, workers, and economics.

This de-integration is evident across our supply chains. Autos provide a clear example of how connected our economies are. The parts, as you have heard, on average, an average vehicle crosses the NAFTA borders approximately seven times before being installed on the production line.

American auto manufacturers have spent decades and invested billions of dollars to fine-tune these processes so that our supply chain reduces cost to businesses, increased productivity, and keeps vehicles affordable for Canadians and Americans alike.

Any outcome from this current 232 investigation that results in tariffs, quotas, or other barriers to trade in the automotive sector would lead to significant negative economic impacts and job losses, not just in Canada, but on both sides of our border. It would make vehicles more expensive for American consumers, leading to decreased sales, hurting businesses, workers, and the American economy as a whole.

This would seriously erode what North American auto industry leaders have built over several decades. For example, it could hurt sales in states like Alabama that export $604 million in engines and $65 million in brake parts to Ontario each year. Experts have calculated that a 25 percent tariff on auto imports coming into the U.S., including auto parts, would shrink U.S. production by 1.5 percent. This could result, as you have heard, in 195,000 job losses in the U.S. within the first three years.

If other countries respond to the U.S. actions by imposing their own tariffs, this would only make the impact greater. U.S. production could fall by four percent, and 624,000 jobs could be lost in the U.S. And these consequences will be felt in Canada as well.

Workers are the backbone of our integrated auto sector. Together, workers and industry leaders have built something great that is being and can continue to be an engine that drives our economies forward. If auto tariffs are imposed, everybody loses. The Canadian automotive industry has supported U.S. national security interests for decades by ensuring reliable auto parts and supplies.

Ontario in particular has been integral in supporting these interests during times of peace and conflict. For instance, during World War II, the General Motors auto plant in Oshawa, Ontario, and the Ford auto plant in Windsor, Ontario, built over 800,000 military transport trucks for allies, including the United States, vehicles that were essential to allied operations during the conflict.

These contributions from Ontario help bolster U.S. national security, safety, and the freedom of U.S. citizens. Any barriers to automotive imports from Ontario and Canada would hinder us from helping in the same way in the future.

As such, it is essential for businesses, workers, and families in both our countries that Canada receive a full and permanent exemption from any measures being considered in this investigation. Ontario's automotive industry and its workers, along with their counterparts in the United States are relying on you to keep them front of mind in your decisions on this matter.

We are stronger and more prosperous together. Our trade relationship has enabled both Canada and the United States to see great economic gains. I am confident that we can continue to work together now and in the future for the benefit of all our citizens. Thank you for listening.

MS. PARK-SU: Thank you. Counsellor Koca.

MR. KOCA: Good afternoon. Thank you

for the opportunity for being here today. My name is Mustafa Koca. I am Chief Commercial Counsellor to Turkey. The U.S. is traditionally a very important trading partner of Turkey, and bilateral trade has almost doubled in the past decade to $17.4 billion U.S. dollars in 2016.

In the U.S. imports, Turkey is the 34th country with the share of 0.4 percent. On the other hand, the U.S. is the fourth biggest exporter in Turkey, import with the share of 5.2 percent. The U.S. has always been enjoying the comfortable trade surplus against Turkey, which ranges between $4.8 billion annually.

In addition to strong economic ties between Turkey and the U.S., the two countries also have mutual security interests as allies. In that, I should express Turkey's deep disappointment at being part of Section 232 investigation, which is initiated with concern on security interests of the U.S.

To begin with, Turkey's automotive exports to the U.S. was $1.3 billion in 2017. In terms of value, Turkey is the 15th automotive supplier of the U.S. with 0.48 percent share. This is to say that Turkey has never been among the top-ten automotive suppliers in the U.S. market. Turkey's share in the U.S. imports in the automotive sector is negligible and ranges between 0.18 to 0.47 percent in the last five years.

Secondly, Turkish automotive producers do not target the U.S. market. Turkey exports almost $24 billion of automobiles and automotive parts to the world, and the U.S. share is only 5.7 percent in Turkey's exports in 2017. Rather, Turkey's main destination is EU countries, and certain neighboring countries with which Turkey is linked with Custom Union and free trade agreements.

In the Custom Union, goods are in free circulation between Turkey and EU which in time created deep integration, especially in the automotive sector. Similarly, thanks to Turkey, FTAs, and concept of diagonal accumulation of origin implemented among the countries located in the EU and Mediterranean area.

In terms of numbers, Turkey exported nearly 58,000 of vehicles for the U.S. in 2017, which would present a negligible share in the U.S. market, a size of 17 million units in the same year.

Thirdly to that, the vehicles exported by Turkish automotive companies are niche products, which will not be produced in the U.S. as the volume in question will not justify the investment cost required. Moreover, while Turkey exported 58,000 units of vehicles, the U.S. exported nearly 132,000 units of vehicles to Turkey in the same year. This is double.

I would like to touch upon Turkey's domestic market. Turkey is among the developing countries which has increasing incomes in occupation, and where demand is on the rise for motor vehicles unlike the other countries such as EU, Japan, and the U.S., in which countries where consumer demand is saturated. The automobile market in Turkey is estimated to grow by three, ten, and six percent in 2018, '19, and '20 respectively. This is to say domestic demand in Turkey automotive market is estimated to grow significantly in the coming years.

When it comes to capacity utilization in Turkey, it was as high as 89 percent before 2008. Right now, it is 86 percent. As a result of FTA and distance between Turkey and the U.S. makes the U.S. market less attractive compared to Turkey's main export destination. Besides, Turkey has a growing domestic demand and high capacity utilization rates in the sector. These two facts combined reveal that Turkey automotive exports to the U.S. neither at the present, nor in the future, can be a threat to U.S. domestic industry.

Looking at the U.S. auto production, it has more than doubled from 5.6 million vehicles produced in 2009 to 11.2 million vehicles in 2016. According to U.S. auto sales have increased more than 67 percent since the financial crisis.

In terms of export, according to statistics from the United States International Trade Commission, the U.S. export on HDS 87 increased by 17 percent from the year 2008 through 2017. In 2017, the U.S. export was recorded as $130 billion which had increased by 44 percent in the comparison with previous years.

When it comes to employment, according to this report published by the American Automotive Policy Council, automotive employment increased by nearly one-half from 2011 through 2016. Current predicts automotive employment will increase by 10.8 percent from the 2013 to 2018, a compound at which growth rate of 2.1 percent. The number of employees in the U.S. automotive industry is also increasing from the year 2010, reaching its peak in 2017.

The report also shows R&D activities in automobile industry continues to grow up. In Michigan alone, nine of world's largest ten automakers and 46 of the world's top-50 global auto suppliers have opened R&D facilities in 2017.

In the initiation notice of this investigation, it is stated that the aim is investigating whether the decline of domestic automobile and automobile parts production threaten to weaken the economy of the United States, including by potentially reducing research, development, and job force skilled workers in connected vehicle systems, autonomous vehicles, fuel cells, electric motors and storage, advanced manufacturing processes, and other cutting-edge technologies.

All, I will mention, indicate to show that domestic automotive industry is not suffering from increase in import of automobile and automobile parts. On the contrary, production and employment is growing continually from the year 2010. Also, automobile industry contributes to R&D development of the country with growing number of the new R&D facilities.

I would like to make some remarks on

the compatibility of investigation with WTO agreements. Turkey believes that Section 232 investigation initiated for automobiles and automobile parts, although justified under the threat of national security, it is solely initiated on pure economic rationale.

Turkey fully respects WTO member's rights and willingness to seek methods to provide security and protection for their people. Turkey also understands the economic concern of the U.S. as far as the fair trade is concerned.

However, while recognizing the right of members to take the ultimate measures to achieve their legitimate objectives, Turkey believes that the chosen method to do so should not constitute baseless barriers to international trade.

Therefore, Turkey urges the U.S. to abide by provisions to safeguard agreements under the WTO in conducting this investigation. Thank you.

MS. NIKAKHTAR: Thank you to our

dignitaries. We appreciate your time here today to appear and share your valuable perspectives with us. And importantly, as well, we appreciate our bilateral relationship with each of your respective countries, and we look forward to our strong alliance with you and our long-standing relationship of close cooperation.

We will absolutely take each and every one of your points into serious consideration as we continue with our investigation, and we thank you for your most valuable insights today. Thank you again for your time.

MS. PARK-SU: At this time, I would like to welcome our seventh panel to take their seats. We have the Government of Japan, Deputy Chief of Mission Kazutoshi Aikawa. The Government of the Republic of South Kora, Deputy Minister Kang Sung-cheon. The Government of Malaysia, Minister Sabariah Ghazali. The Government of South Africa, Ambassador Mninwa Mahlangu. The Taipei Economic and Cultural Representative Office, Ms. Jenny Van.

MR. Aikawa, you may begin when you are ready.

THE HONORABLE AIKAWA: Thank you.

MS. PARK-SU: Yes, and please make sure to bring the microphone up front. Thank you.

THE HONORABLE AIKAWA: Okay, well, thank you for giving me the opportunity to present the Japanese Government's view on the investigation conducted by the Department of Commerce under Section 232 of the Trade Expansion Act of 1962.

I would like to briefly touch upon the current situation of the U.S. automotive manufacturing base and contribution of the Japanese companies to the United States economy. I would then like to explain possible negative impacts on the U.S. economy in the event trade-restrictive measures are imposed.

In regard to the current situation of the U.S. automotive manufacturing base, I would like to point out that the U.S. automotive manufacturing base has sustained a nine-year production of more than 10 million vehicles since 2012 and continues to steadily grow. The number of jobs in the U.S. automotive and auto part industry has increased accordingly with no indication of imports from Japan hurting the U.S. auto industry.

In our view, the growth of the U.S. automotive manufacturing base is owed much to the globalization of industry and it is far reaching. The exports of passenger vehicles manufactured in the U.S. have been on the rise, and the increased access of the global procurement network, that includes that of the United States, is a source of competitiveness for today's U.S. automotive industry.

Let me turn to the contribution that Japanese companies to the U.S. economy. Japanese automakers have been playing a vital role in creating many jobs and supporting the growth of the U.S. manufacturing base through investment. In particular, since January 2017, Japanese companies have announced a number of new investments in the United States, and it is expected that at least 28,000 jobs will be created by those investments. This ranks the highest among foreign companies investing in the United States in that period. And it is Japanese automakers that are enormously contributing to it.

In the midst of a globalization of auto industry, Japanese automakers are currently manufacturing as many as 3.8 million odd cars in the United States, and the exports from the United States to the rest of the world amounts to $23 billion in value. Japanese auto and auto-related companies in total have invested more than $48 billion and creating more than 1.5 million jobs directly or indirectly in the United States.

Those Japanese companies have sustained jobs in the United States for long and contributing to its local economy and communities in a no less meaningful manner than the U.S.

counterparts. The large portion of auto parts are purchased domestically in the United States buy the U.S. auto companies. Sorry. Purchased domestically in the United States by Japanese auto companies. In fact, their purchases of U.S. auto parts have increased by 28 times in value in the last 30 years.

As is seen in the new Alabama plant announcement by Mazda and Toyota, the Japanese companies' contributions to the United States has been an expansive trend. In the case of the new Alabama plant, efforts are underway for the commencement of the operations in 2021.

Lastly, let me say a few words on the trade-restriction measures on automobiles and auto parts, which will have a negative impact on the U.S. economy if implemented. According to the recent IMF reports, the U.S. could be the region most affected by trade tensions with a drop in GDP of about 0.8 percent in the worst-case scenario, which includes tariffs being imposed on imported automobiles and auto parts.

Even if the measures were imposed, it would all lead to the immediate expansion of domestic investments, the constrains on production capacity and employment, among others. The prospects of an unpredictable investment environment could be a hindrance to such an investment expansion.

The imposition of tariffs would instead invite an increase in vehicles prices and serve as a burden on consumer sentiment, and therefore could lead to the shrinking of the U.S. auto markets with consumer rollbacks in purchases. According to the trade partnership worldwide, a 25 percent tariff imposition would result in the increase of the price of $30,000.00 imported car by $6,400.00.

In addition, when an inevitable increase of domestic production cost, U.S. automakers would eventually lose their competitiveness. According to a study of Peterson Institute for International Economics, an imposition of 25 percent tariffs on automobiles and auto parts and the corresponding retaliatory measures by other countries, it might cause the unemployment of about 624,000 workers in the United States. The U.S. economy as a whole could consequently suffer.

The introduction of trade-restrictive measures would also have an adverse effect on the global trade and put market trading system as a whole at great risk. Such measures would rather raise serious questions as to the compliance with the WTO agreements.

U.S. manufacturing and agricultural industries could suffer as well. Japan is a proud and indispensable ally of the United States, and trade relations with Japan contribute not only to the economic prosperity of the United States but also to its national security. The importation of automobile and auto parts from Japan has not by any means increased the -- by any means threatened to impair the national security of the United States and will never do so in the future.

Let me conclude by expressing once again our sincere hope that the Department of Commerce will take those concerns I have enumerated into serious considerations and concur with my fellow colleagues that those concerns should never be brought about. Thank you very much.

MS. PARK-SU: Thank you. Deputy Minister Kang?

MR. SUNG-CHEON: Thank you. Good afternoon. My name is Kang Sung-cheon. I am Deputy Minister for Trade from the Ministry of Trade, Industry, and Energy of the Republic of Korea.

I would like to begin by emphasizing that Korea is a key security ally and a trustworthy trade partner of the United States. Our two countries have just reached an agreement in principle on KORUS FTA amendment negotiations this March which was focused primarily on autos. As such, we believe that Korea does not undermine or diminish in any way the national security of the United States.

Now, allow me to elaborate. First, Korea and the United States have a longstanding bilateral security alliance that goes back for decades. This alliance has provided a peace and stability in Northeast Asia, and it has served as a bedrock for the ongoing best efforts for denuclearization of the Korean Peninsula. Korea is a partner in this U.S. national security initiative, not a threat to it.

Second, through KORUS, our two countries have established free, fair, and reciprocal terms of trade, elimination of tariffs on passenger cars, as well as other allowances given to U.S. autos under KORUS. Half of the U.S. exports of automobiles into Korea market increased by more than 300 percent since KORUS came into effect. The United States is now a major player in Korea's import auto market.

At the Trump administration's request, our two countries engaged in amendment negotiations on KORUS FTA, which is greatly enhanced market access to Korean market for U.S. vehicles. Under the amended agreement, Korea doubled the allowance for U.S. cars under U.S. safety standards from 25,000 to 50,000 units per manufacturer.

Korea will also take into account U.S. standards in setting its own environmental standards. On the U.S. import side, Korea extended the phase out period of 25 percent tariff on trucks for 20 more years. In this regard, there is no surprise that in June, President Trump characterized the recent KORUS amendment as a wonderful deal for both countries.

Third, Korean car companies are now an important part of the U.S. economy. They have invested over $10 billion in U.S. production, supporting more than 110,000 quality jobs for American workers. Their investment also helps address the U.S. trade imbalance and strengthen the U.S. industry's innovative capacity.

Korean automakers export 18 percent of their U.S. production and produce car components in the U.S. and carry out numerous R&D projects on cutting-edge technologies across the United States. Furthermore, Korean auto industries are not in direct competition with U.S. industries. Korea exports to the U.S. mostly small and medium-sized cars while the U.S. automakers focus more on SUVs and pickup trucks. If anything, Korea can benefit U.S. customers by providing a wider set of models to choose from.

Last but not least, Korea would like to voice a general concern that the United States should be very cautious about asserting national security on autos and auto parts which have no clear relation to defense industry. We fear that expanding the scope of national security exception in such a manner might trigger a cascading series of abuses around the world. This in turn could cause harm to the global economy and present a very real threat to the national security interests of the United States as well as of Korea.

In closing, I would like to emphasize

once again that Korea and the United States have always maintained a strong bilateral security relationship, and further, our two countries already have a great deal on autos based on KORUS FTA. Any measure under Section 232 has the potential to fundamentally undermine the benefits of KORUS for both countries. In this regard, Korea requests that the United States carefully consider all relevant aspects to the investigation in deciding whether Section 232 remedies are appropriate for the U.S. automotive sector. Thank you.

MS. PARK-SU: Thank you. Minister Ghazali?

MS. GHAZALI: Good afternoon members of the U.S. administration. I am Sabariah Ghazali, the Minister Counselor for Trade from the Embassy of Malaysia. Thank you for giving me the opportunity to present the government of Malaysia's view relating to the Section 232 Investigation of Imports of Automobiles and Automotive Parts.

Malaysia and the U.S. have always enjoyed strong and close trade and investment relationships. However, this new investigation is a concern for Malaysia.

Any remedial measures introduced by this law could potentially jeopardize our exports to the U.S. Malaysia views that the usage of Section 232 Trade Expansion Act as defined by the U.S. administration as jeopardizing the multi-lateral trading system behind upheld by the WTO members.

Malaysia believes that the U.S. concerns can be appropriately addressed through the WTO agreement on safeguards as it will provide equal opportunities for trading members to address concerns within a set parameter of rules and transparency.

Nonetheless, if the U.S. administration chooses to continue the investigation, Malaysia requires for the U.S. administration to provide an avenue for fair assessment. It is proposed for the investigation to take into account the following.

Number one, defining the terms of automobile and auto parts based on HS code. Number two, qualifying the value of imports by respective countries of the set product which is deemed to be impairing the U.S. national security and simulating in detail on how such imports could impact U.S. national security, and three, considering the trade balance of the set products between the U.S. and her partner.

Malaysia also requests that the U.S. administration provide adequate consultation sessions with trading partners, including Malaysia, especially in the case of adverse findings. Trading partners should be given the equal opportunity with clear parameters on how the country can address U.S. concerns as well as the trading partners' concerns. In the event that remedial measures are imposed, exemption or exclusion should be accorded to Malaysia based on the following reasons.

Number one, imports from Malaysia into

the U.S. for automobile and auto parts are very low. Between 2015 and 2017, imports of automobile and auto parts under HS 87 from Malaysia constituted only an average of 0.03 percent from the U.S. overall imports of automobile and auto parts and 0.21 percent from the U.S. overall imports of products from Malaysia.

Such low imports, therefore, could not be a cause or even a threat to the U.S. national security. Low imports from Malaysia should also indicate that Malaysian products do not compete with the U.S. domestic production.

U.S. exports of the same products HS 87 into Malaysia for the same period of 2015 to 2017 were much higher, indicating a trade surplus for the U.S., and represents an average of 0.40 percent of U.S. overall exports to Malaysia. Imports from Malaysia in fact complement the U.S. production as most of the imports are supplied to sister companies in support of the U.S. domestic production.

Any additional tariff imposed on Malaysian-originating imports will not only add cost to the production in the U.S. ending with the U.S. consumers having to pay higher prices, but also the exports of the final products where Malaysia's imports as input will result in U.S. losing export competitiveness.

In summary, the low value of imports in automobiles and auto parts from Malaysia and that Malaysian companies are part of the U.S. value chain are complementing the U.S. production base. The imports from Malaysia are mainly common items that could not be used for U.S. defense purposes, and do not impair U.S. national security or economic security.

Malaysia believes that the imports from Malaysia do not stifle the incentives for innovation of U.S. firms, cause of U.S. unemployment, or industry displacement given the small amount of imports. Should there be remedial measures taken by the U.S., the trading relations of our two countries within the context of the products should be taken into consideration.

How the relatively small imports of autos and auto parts from Malaysia impacts the U.S. national security and economic security must be made clear since such findings might weigh into the way forward for bilateral trade relations between Malaysia and the U.S. The Government of Malaysia hopes that serious consideration could be given based on the above points before imposing any measures against the imports from Malaysia under this investigation.

The Government of Malaysia also reserves its rights to raise any other issues concerning this investigation at a later date. Thank you for your attention and consideration.

MS. PARK-SU: Thank you. Ambassador Mahlangu?

AMBASSADOR MAHLANGU: Thank you, Chairperson. Thank you very much for giving South Africa the opportunity to present its case today in this public hearing.

South Africa automotive exports to the U.S. amount to 1.17 percent billion in 2017, which is 0.4 percent of total U.S. automotive imports of $294 billion U.S. dollars. Of the total South Africa automotive exports to the U.S. in 2017, 93 were passenger cars, four percent auto parts, one percent vehicles for transport of goods, and 0.68 percent for tanks and other armored vehicles, fighting vehicles.

The share of South Africa vehicle exports destined for the U.S. has declined over the period from 40.9 percent in 2009 to only 12 percent in 2017. South Africa has been exporting mainly passenger vehicles to the United States. In addition, South Africa automotives were exported to supplement U.S. production when there were shortages in the U.S. production lines.

However, since February 2018, one of the auto manufactures will at this stage no longer export to the U.S., which will result in a reduction in South Africa export of passenger vehicles. Instead, South Africa will continue to import automotive components from the U.S., thus supporting jobs in the U.S., therefore future South Africa automobile exports to the United States would be significantly reduced while the imports of high-value components from the U.S. will increase in view of the intra-industry linkages.

In a nutshell, South Africa exports of vehicles and parts do not threaten or harm the national security of the United States of America. The automotive parts exports to the U.S. includes engines and catalytic converters that makes the U.S. competitive, and also benefit consumers of automotive products in terms of cheaper products as a result of duty-free access that they enjoy and AGOA.

Ford engines in South Africa are manufactured with imports from the U.S. and create 800 jobs in the U.S. Catalytic converters are produced from minerals that are available in abundance in South Africa such as platinum and nickel. Since South Africa is well endowed with minerals, the country remains a strategic source of catalytic converters for the automotive industry in the U.S.

Imports of tanks and armored vehicles into the U.S. from South Africa contributes towards the U.S. national security. Therefore, if the investigation on the national security impact on automotive imports results in an imposition of tariffs on these imports, such actions will most likely suspend AGOA GSP benefits for South Africa, and possibly increase the price of these automotive imports to U.S. manufacturers.

Section 232 Investigation on Automotives and Parts is taking place in the context of Section 232 duties applied on South Africa exports of steel and aluminum as of March 2018. Since the establishment of AGOA 2001, automotives have been leading export sector to the U.S. market.

AGOA exports, including automobiles, auto components, aluminum, and steel amounted to

$2.9 billion in 2005, and increased to $27 billion in 2016. However, when excluding autos, auto components, aluminum, and steel, the total exports were valued before $4 billion ran to the U.S. market in this period. Thus, without automobiles and automotive parts, steel, and aluminum, the benefits of AGOA to South Africa will almost be extinguished.

The U.S. ITC study shows that during 2010-2016, U.S. exports of motor vehicle parts to South Africa increased by 80.4 percent, corresponding to growth in South Africa automotive sector during this period. This is as a result of strong business links which were established by U.S. companies based in South Africa.

Furthermore, the study notes that a number of programs implemented by South Africa aimed at improving their competitiveness of the sector have lowered the barriers to entry into the industry. They have also significantly reduced import duties on vehicles, components, and pre-assembled vehicles which may also have facilitated U.S. auto parts exports to South Africa.

Therefore, the intra-industry linkages have contributed to a mutually beneficial trade relation between the two countries. Thus, the implementation of Section 232 duties on imports of automotive products will have a significant and a negative impact on the existing trade relation in the sector for South Africa and the U.S.

In terms of AGOA, AGOA has supported the transformation of South Africa export from primary and mineral products to more value-added products such as automobiles and automotive parts. AGOA has also contributed to development of regional value chain in the continent, with countries such as Lesotho and Botswana producing and supply car seats and electric wiring respectively to the automotive industry in South Africa.

Accordingly, AGOA has been a catalyst

for the transformation of continent export. The imposition of Section 232 duties on imports of cars and parts from South Africa would render South Africa an exporter of commodities to the U.S. and undue benefits of AGOA. In terms of our relationship, bilateral trade between South Africa and the U.S. is growing mutually beneficial and relatively balanced.

In 2017, the U.S. was ranked as the third biggest source of imports globally in South Africa and was ranked second-largest export destination for South African products after China. South Africa remains a market for 35 percent of goods that the United States exports to Sub-Saharan Africa. Regarding bilateral trade and services, total two-way trade was estimated at $4.7 billion U.S. dollars in 2017 with U.S. enjoying a surplus of approximately $900 million U.S. dollars.

Accordingly, according to the report of the foreign direct -- report of ITC, foreign direct investment in the United States, America is estimated at $4.2 billion in 2016. Therefore, we wish to put to you that the companies like Sasol from South Africa is investing currently $11 billion U.S. dollars in the U.S., creating 5,000 jobs in the United States of America, and we request -- we want to put forward that you be sympathetic in looking at this so that our relationships between the two countries could continue. Thank you very much.

MS. PARK-SU: Thank you, Mr. Ambassador. Ms. Van?

MS. VAN: Yes. Good afternoon. My name is Jenny Van, and I am the legal advisor to the Office of Trade Negotiations representing the Government of Taiwan. Thank you for the opportunity to testify today.

In our written submission, we have already addressed our observations on the healthy and growing state of the U.S. automobile industry. In my brief statement today, I would like to focus on two points that highlight the importance of imported auto parts to the U.S.

economy.

My first point, imported auto parts do not pose a threat to U.S. economic security. Rather, as National Association for Manufacturers and other associations testified today, they are semi-finished products that sustain and fulfill the need of its automobile industry. Currently, the capacity utilization rate for U.S. auto industry manufacturing is above 80 percent. However, the domestic industry still needs imported auto parts to meet the required demand, both in the OEM sector and the aftermarket.

This need for imported auto parts is especially salient for collision body parts like bumpers, mirrors, visual signaling equipment, and for miscellaneous parts and accessories. For body parts, this is mainly attributed to issues of cost competitiveness and economies of scale. For miscellaneous parts, in 2017, accessory and parts was the U.S. top import among all auto part imports according to customs statistics.

Thus, by leveraging comparative

advantages of U.S. domestic and foreign suppliers, in importing these more so-called peripheral auto parts from foreign suppliers, U.S. manufacturers can focus its R&D efforts on improving and producing products that generate more profits for its businesses and are more essential to national security.

Imported auto parts also drive employment in the U.S. auto industry. As detailed in our submission, our economic analysis found a positive correlation between consumer purchasing power, the demand for auto parts, the demand for auto part imports, and employment in the auto industry.

In this regard, we echo arguments put forth by my fellow presenters that additional tariffs on auto parts would drive up costs for manufacturing, reduce sales and revenues, decrease investment, and negatively affect employment of American workers.

Moving on to my second point, in addition to not posing a threat to the U.S. auto industry, imported auto parts also fulfill special needs in the aftermarket that directly benefit the downstream auto industry. First, they help insurance companies and consumers by providing competition to OEM service parts and keeping premiums and repair costs in line for American drivers.

Higher repair costs will lower the number of cars repaired and increase the risks of consumers driving unsafe cars on the roads. Furthermore, many auto part wholesales and retails are local small businesses that would not be able to stay in business if cost for parts becomes prohibitive.

Second, foreign auto part suppliers help U.S. aftermarket businesses because they are capable of filling orders with high variety but a very small scale. This is true for auto parts generally, but it is especially true for specialty parts used to restore classic and antique cars. As one specialty automobile manufacturer commented in the DOC -- to the DOC, for many imported parts, there is no U.S. source. The volume is simply too small and U.S. companies have more profitable work at higher volume available.

Taiwan, as a champion for democracy and free trade, has been an U.S. long-term ally and strategic security partner in the Asia-Pacific region. Our firms are strong partners with major American auto companies and are cost effective and reliable general and specialty parts provide U.S. companies and consumers with more choices in their car purchase, maintenance, and repair.

With no prior FTA-related preferential treatments, Taiwanese companies have earned the trust of their U.S. suppliers to contribute to the U.S. and global economy. This is their success story.

In conclusion, we respectfully request that automotive parts be excluded from the scope of this investigation or any resulting remedy. If any remedy is imposed, we ask that a less drastic remedy be accorded to auto parts. Thank you for your time.

MS. NIKAKHTAR: Okay. Thank you to our foreign dignitaries for your comments. We know that you have worked today's hearing into your busy schedules, and we sincerely appreciate your taking the time to appear this afternoon. Furthermore, we truly appreciate our relationship and long-standing history of close cooperation and strong, strong economic ties with each of your countries. Your comments are truly quite important to us, and we will, rest assured, take them into very serious consideration as we continue our investigation. We thank you again for your time and comments. Thank you.

MS. PARK-SU: At this time, I am going to go ahead and call a break. We will resume at 3:10 and continue with the rest of the panel. Thank you.

(Whereupon, the above-entitled matter went off the record at 2:47 p.m. and resumed at 3:10 p.m.)

MS. PARK-SU: Thank you very much. I'd like to resume this hearing by welcoming the Eighth Panel to the stage. Today we have Sumitomo Rubber North America, Richard Smallwood, Tianhai Electronic North America, Richard Glidden, JTEKT North America Corporation, Michael R. Davidson, MAHLE Industries, Mr. Chris Heineman. Mr. Smallwood, you may begin when you're ready.

MR. SMALLWOOD: Good afternoon. I'm Richard Smallwood, CEO and President of Sumitomo Rubber North America, a subsidiary of Sumitomo Rubber Industries, which is headquartered in Kobe, Japan.

SR&A and Sumitomo Rubber USA -- Sumitomo Rubber's US manufacturing affiliate -- submitted joint comments for this investigation. SRA also filed a submission.

Today I plan to speak on behalf of all three Sumitomo Rubber entities. Sumitomo Rubber appreciates the opportunity to present our views at this hearing.

Sumitomo Rubber is a global tire and rubber company that manufactures a wide range of automotive tires for all types of vehicles, including passenger cars, trucks, buses, and motorcycles.

In the United States, Sumitomo Rubber tires are produced or imported, and sold under the Dunlop, Falken, and Sumitomo brand names.

Sumitomo Rubber has already invested substantially in US tire manufacturing, employing more than 1,600 American workers at our US facilities in seven states, and we are now planning a substantial expansion of our US manufacturing presence, having recently announced an investment of up to roughly $80 million, that'll permit SRUSA to produce 15,000 tires per day by 2020.

These completed and future investments are part of the strategic plan announced two years ago, when Sumitomo Rubber made public its intention to more than double its American manufacturing capabilities in the coming years.

We believe that the imposition of tariffs on automotive parts under Section 232 would harm, rather than help, US tire consuming industries and consumers, and would undermine the significant investments of Sumitomo Rubber in its US manufacturing operations.

The investments I just described reflect our strategy to be closer to the manufacturing facilities of our principal US customers, and to our consumers, including a range of automobile and motorcycle makers, as well as well-known automotive tire and parts retailers, such as Discount Tire and PepBoys.

Indeed, we have transferred production capabilities for our parts away from our non-US operations, to American plants to better meet our customers' needs.

Tariffs on imported tires would have some combination of two adverse economic consequences. That is, they will increase the cost of these critical components to US tire manufacturers, and retailers that the Sumitomo

Rubber Company serves.

Or they will decrease the profit that we receive. To the extent we are able to pass on this increased cost, it will be absorbed by our direct customers, or be passed on along, in the form of higher sticker prices and higher retail prices, to the American consumer.

Added tariff cost not pass on to our consumers, or to -- to our customers or to consumers, will reduce the amount of funding available for us to invest in new production facilities, or to hire additional personnel.

Tariffs will, therefore, hurt our business and that of our customers, while also raising prices and potentially limiting choices for US consumers.

Sumitomo Tire and Rubber is not aware of any US tire manufacturers advocating for the imposition of tariffs under Section 232, and no analysis from the US government or any other entity demonstrating that US tire imports threaten the national security.

At the same time, the department is hearing from many participants in the industry, and their written submissions, and at today's hearings, in detailed terms exactly how the imposition of tariffs would harm US manufacturing and investment. These industries are completing their recovery from the great recession.

Finally, alongside our expanding US manufacturing operations, we do import tires from Thailand, Indonesia, and Japan. These three countries are all close military allies and security partners of the United States, who contribute positively to US national security in many ways that we described in our written submissions.

Seen in its full strategic context, I just cannot see how Sumitomo Rubber's engagement with the United States -- both for US investment and imports -- could have any conceivable negative impact on national security.

Certainly, our economic impact in the United States is a reasonably positive one. On behalf of the Sumitomo Tire and Rubber entities, I again would like to thank the Commerce Department for this opportunity to share our testimony. Thank you.

MS. PARK-SU: Thank you. Mr. Glidden?

MR. GLIDDEN: Thank you, Ms. -- thank you, Chairperson. My name is Richard Glidden. I am the Vice President of Tianhai North America, also known as TENA.

I appreciate the opportunity to testify in opposition of the proposed tariffs. TENA's a Michigan-based company with 145 US employees. We provide wire harnesses to the automotive manufacturers.

If the proposed tariffs on imported auto parts go into effect, we will be forced to lay off more than 45 US employees, cancel domestic plans for R&D in manufacturing facilities. This will occur because the cost of doing business in the US will be insurmountable. We will be selling products at a loss and be forced to cancel programs.

In the past ten years TENA has invested more than $48 million in the US. We have grown over 1500 percent, from $13.6 million, to over $200 million annually. We're on track to employ an additional 200 Americans, and reach $400 million in annual revenue by 2020.

This is a feat that will not be achieved if tariffs are ultimately applied. While we are part of a global industry, we continue to expand our domestic footprint. We currently have an office at Pontiac, Michigan, and a warehouse in El Paso, Texas.

We're planning for two R&D centers to support electrical distribution design and other connected vehicle technologies in Michigan and California.

In the Michigan thumb, we are ready to expand our domestic manufacturing capabilities by adding wiring component plant, providing jobs in an area desperate for such opportunities.

Plainly, these projects will not be achieved if the proposed tariffs are implemented, because we will not be able to generate enough revenue to maintain our current operations, let alone expand.

One of the first and most critical elements of the success in this industry is the ability to predict and plan in production timing. Uncertainty impacts our ability to employ Americans, our ability to provide products to our customers, and ultimately, our ability to survive as a company.

Why? Distraction, destruction and overall distress on the global supply chain caused by these tariffs, will result in decrease in quality, ultimately harm the American automotive market, our customers will not support a price increase, which will force us to either pull out of existing contracts, or be forced to close our doors.

Frankly, the latter will be the inevitable result.

Looking at one example, 45 of my 145 employees are dedicated to engineering and manufacturing wiring harnesses in one of the largest truck brands in the United States.

This accounts for nearly 30 percent of our company revenue. These employees rely on their jobs to provide for their families. By implementing these tariffs, these 45 employees and their 100-plus family members will be the ones that suffer.

Any incremental tariffs on the imports that will make the product a non-financial starter. I will lose money for every wire harness I sell to this customer.

Unlike the component and design manufacturing we plan to do in Michigan, it's not easy to bring the labor-intensive assembly jobs to the US. Nonetheless, the money we generate in the US stays here and creates more jobs.

These tariffs will prevent us from adding more than 200 employees in the next two years. It will prevent the incremental spending of over $200 million in the same time, and it will result in a reduction in my workforce by 40 percent.

In sum, I hope that it's clear. My focus is centered solely on the longevity of my company, the livelihood of my employees, and the impact that these tariffs will have on the same. It's not clear -- to myself or others -- how this proposed tariff could be considered a necessary device to protect national security, or in any way benefit the national economy.

Ultimately, the final burden will be felt by my customers, the American automotive consumer, and first and I might, American employees.

These tariffs will prevent companies like mine from completing necessary US research, development, and production of new vehicles, new vehicle technologies, and put more Americans out of work.

Thank you for your time.

MS. PARK-SU: Thank you. Mr. Davidson?

MR. DAVIDSON: Good afternoon, and

thank you for the opportunity to testify on this important issue today.

My name is Mike Davidson, and I'm here on behalf of JTEKT North America Corporation, where I serve as Executive Vice President and Chief Operating Officer.

I've been with what is now JTEKT North America since 1999, and have worked in the automotive parts industry for more than 27 years.

JTEKT is a global supplier and manufacturer of automotive steering systems, driveline components, bearing technologies, and machine tools. And our North American headquarters is located in Greenville, South Carolina.

JTEKT employs more than 6000 Americans nationwide, and our 14 US manufacturing operations span seven states.

Since 2014, we've invested more than half-a-billion dollars in our US operations, and currently have a five-year plan that could potentially include an additional $300 million of capital investment in the US.

We support sourcing locally. But in some cases, we do import subcomponents, primarily due to lack of domestic capability or capacity. Ten of our facilities in Tennessee, Texas, Georgia and South Carolina depending on steering, driveline, engine and pump subcomponents, in order to produce more complex automotive systems for new passenger vehicles.

These subcomponents are manufactured primarily at JTEKT facilities and supplier partners that support our global operations. This reliable supply of subcomponents inputs enables our US facilities to focus on higher, value-added production of more complex automotive systems, using innovative and advanced technologies.

These technologies make the US automotive industry stronger, and contribute to a stronger US defense industry.

The imposition of a tariff on automotive parts will disrupt our supply chain and result in higher final production costs. This could severely limit our ability to invest in our growing US R&D efforts.

While we do actively work to identify and develop capable domestic suppliers, JTEKT cannot readily make changes to its supply chain.

Our steering and related systems are safety critical, and we must ensure American consumers' safety comes first. Our validation of a new supply source requires extensive testing, and lead time of up to two years.

Additionally, all automotive OEMs have their own validation requirements of our final product in order to allow sourcing changes.

The imposition of tariffs on automotive parts will weaken our national economy. Our extensive US manufacturing operation employs thousands of hardworking Americans.

Auto manufacturers like GM, Fiat-Chrysler, Toyota, Nissan, BMW and Honda, rely on our high-quality automotive systems to produce passenger cars in the US for both domestic and export markets.

These OEMs oppose tariffs which would lead to higher production costs. Such costs would ultimately be passed along to consumers, forcing them to pay more for their vehicles, and the necessary automotive parts for repairs to keep them running safety.

This will negatively impact consumers' choice, and threaten the prosperity and the communities where JTEKT's team members and their families live and work.

For these reasons, we respectfully request that automotive components be excluded from tariffs. Imports of these products from US allies are not displacing domestic production in any meaningful way, and have no impact on our national security.

Rather, importation of these imports supports more complex and innovative manufacturing in the United States, and has enabled domestic producers to implement new automotive technologies that make our US auto industry stronger, it's autos safer, and more competitive.

A thriving automotive industry will best contribute to the strength of our economy, including the US defense industry. I urge the Administration to continue to support pro-growth policies that will ensure continued investment and the success of this important sector.

Thank you for your consideration.

MS. PARK-SU: Thank you. Mr. Heineman?

MR. HEINEMAN: Good afternoon, and thank you for allowing us to speak today.

My name is Chris Heineman and I am now the MAHLE's Senior Director for Purchasing, Thermal Management. MAHLE offers the following comments regarding the Section 232 investigation.

MAHLE manufacturers parts and equipment for the automotive industry, including pistons, crankshafts, intake manifolds, filtration, and engine cooling and HVAC components.

MAHLE strongly opposes any tariffs, quotas, or other restrictive adjustments, to imports of automobiles or automotive parts, that do not provide protection to US national security.

Just like many other vehicle parts suppliers, MAHLE has a significant domestic presence, and invests heavily in the US. MAHLE and its subsidiaries and affiliates are US entities registered to do business in 25 states, with sales in all 50 states.

MAHLE has over 6000 employees in the US, as well as 22 facilities located throughout the country. MAHLE's largest customers in the US are US automobile manufacturers which have significant sales to American consumers.

During the next five years, MAHLE plans to invest over $900 million in maintaining its existing facilities, planned expansions, and research and development efforts, throughout the US.

MAHLE provides a wide variety of high-quality, competitively priced parts to its US automobile manufacturing customers. Some of these customers provide vehicles to the US government and the national defense industry.

Additionally, MAHLE's entity most impacted by these tariffs assist the Department of Defense with research and development through its wind tunnel operation in Troy, Michigan.

In today's global economy, MAHLE and other vehicle parts manufacturers rely on open markets and integrated supply chains in order to produce high-quality products at competitive prices, allowing them to support economic growth and employment throughout the US.

If the US imposes tariffs, quotas, or other restrictive measures, it would cause uncertainly regarding MAHLE's ability to readily obtain the parts and components necessary for MAHLE to meet its manufacturing requirements, putting MAHLE and the jobs of its American workers in jeopardy.

If MAHLE does not have certainty as to when it can obtain parts and components, MAHLE cannot plan production accordingly.

As a global supplier with global automotive customers, MAHLE positions itself to manufacturer within the region of consumption. MAHLE has the majority of our US-based purchasing spent with the US Tier-2 supplier market, ranging from small businesses to Fortune-500 companies.

However, as a means of strategic and competitive priorities, MAHLE relies on open markets to access the global Tier-2 supplier market, for reasons including innovation, technical competence, diversification, and risk mitigation.

In fact, there are certain commodities and/or components that are not readily available within the US, either due to technical competence or capacity constraints, to support total demand or unique, low-volume, high-mix applications.

Therefore, access to an open, free-trade global supplier market is essential for a healthy, viable automotive market.

Other recently enacted tariffs and duties have already negatively impacted MAHLE's business. Both the Section 232 tariffs on steel and aluminum, and the Section 301 tariffs on numerous products imported from China, that negatively affected MAHLE's business, as have the antidumping and countervailing duties on aluminum foil from China.

MAHLE's costs have increased significantly as a result of these tariffs and duties, forcing MAHLE to request price increases from its customers, potentially damaging critical customer relationships, and fostering contract disputes.

If MAHLE's customers are unable to assist MAHLE in absorbing these price increases, MAHLE's ability to provide parts to its customers is at risk, which negatively impacts the US economy.

MAHLE believes any threat to the US economy will have an immediate impact on US national security. For all these reasons, MAHLE strongly opposes any tariffs, quotas, or other restrictive adjustments to imports of automobiles or automotive parts.

MAHLE does not believe these restrictive measures are needed to protect US national security, and may, in fact, weaken our national economy by harming US-based automotive suppliers and their domestic customers.

Ultimately, any restrictive measure could significant jeopardize the jobs and income of American workers whose livelihood is dependent on this industry.

Thank you for the opportunity to testify in this Section 232 investigation. I'll be happy to answer any questions the members of the panel may have.

MS. PARK-SU: Thank you. I'd like to open the floor now for any questions or comments from the US government.

MR. CASTRILLON: Well first of all, thank you all very much for your participation today and your insight.

We do realize that you've all flown in from out-of-town, and that you have companies to run, and that this is not part of what you normally do as part of your day-to-day responsibilities, so we really appreciate you being here. With that being said, I think my colleague Michael has a question.

MR. VACCARO: Thank you. I'm not sure if you were here this morning, but I asked a similar question to an earlier panel. But from your perspective as large automobile parts suppliers, what is the relationship in the automotive industry between where R&D takes place, and where manufacturing take place?

MR. SMALLWOOD: Can I repeat that ques- -- is it what -- the relationship between location of the supplier, or where the manufacturer of the supplier is, and --

MR. VACCARO: Whatever you -- I mean, where you're conducting R&D today, how do you make a decision where you're going to conduct

R&D, and does that impact where you're actually going to end up manufacturing a product?

MR. SMALLWOOD: Actually, in the case of Sumitomo Rubber, our goal is to put production by where we're going to sell the product. So in North America, we want to have a North American production, where US, we want to have US production.

We need to keep it close to the consumer. That's really what our goal is. And that's -- in the case of the original equipment manufacturer, or for the consumer, we want local production for local sales. So that's what our goal is.

MR. GLIDDEN: Any type of R&D investment, what we do, it's all related to engineering of the customers' specification in quality control. It has nothing to do with any new technologies. That's what we focus on.

MR. DAVIDSON: And for JTEKT we have five regional headquarters around the globe, and in each of those regions they have separate responsibilities for R&D. For North America -- and for US in particular -- we are growing our technical center capacity to support the technologies needed to supply the market here.

So, our production strategy is basically local for local -- that's why we're located in over 25 countries -- but yet the R&D for the region is located in the US. We've increased those resources by 50 percent in the last three years for steering and driveline technologies, and continue to grow for our other technologies, as well.

MR. HEINEMAN: Our manufacturing is located in the region of consumption. We do have engineering locations around the globe. For specific applications, vehicle programs, it's -- usually follows the customer home room.

So, for example, the traditional big-3, those platforms would normally happen in the US. If it's BMW or Daimler, those engineering resources are usually led out of Germany.

MR. SMALLWOOD: May I add one point on that? One of the problems -- and I can only speak for the tire industry, not to the others -- but there's a tremendous amount of complexity in the manufacturing of tires. You know, in terms of the chemicals, the components, and all of that.

So that in the ideal world, we'd be able to build everything right here in the US. But from a practical standpoint, we can't. There's too much complexity in the manufacturing.

So what we have to do is look at it from the very global basis. So we will build some product here, some products in other markets, so we can optimize the production.

Because, again, we can't bring all of the materials into one plant because it makes it almost impossible to be able to build everything we need, but it is impossible for everything we need to one plant, because of all the different components that are required.

So that's why for us it becomes very

global. We try to balance out everything with the different factors around the world.

MR. VACCARO: Thank you.

MR. CASTRILLON: I want to talk a little bit about the manufacturing footprint in the US for auto parts. Some of the folks on the panels this morning, and you all in your presentations just now, talked about the importance of inputs and cheaper low-tech inputs in order to drive more high-value, high-tech manufacturing in the US.

As you all know, the reliance on imported auto parts for US auto assembly appears to be increasing, and imports of auto parts continue to increase over time, and I think if you look at the trade data, it shows that it's not just low-value inputs coming in. It's also very high-tech, high-value products.

And I wonder if I could get your perspective, as Tier-1 suppliers, on, are we at risk of having the supply chains and the sources for these high-tech, high-value products be established outside of the US, and are we at risk of not having US sources for some of these high-value, high-tech inputs, especially as we look towards what the automotive industry looks like in the future, as we advance towards electrification and autonomy.

MR. SMALLWOOD: I mean, I can give you an example from the tire industry, and that is that there's actually a resurgence in production in North America, or in the United States. I'm responsible for North America, so I keep saying North America. Sorry.

But there's actually a resurgence in production here. So if we look at just the last couple of years -- what's already occurred and what's happening in the future -- we have manufacturer coming here for the first time.

So, in our case, we took over a factory from Goodyear about two-and-a-half years ago. We have another company -- Kumho, Yokohama, GT, Century -- these are tire manufacturers who are coming into the US, and they could be -- you know, some of the parts they would be selling would be considered high value. Others would be more commodity.

But again, this is a full spectrum of product, and it's on the whole notion of being -- having production close to your customer, whether it's an OEM or to the consumer.

MR. GLIDDEN: Wire harnesses are very labor-intensive, and it's very low technology. So, bringing a wire harness back here into the US as we -- I believe that wire harness hasn't been assembled in the US in twenty-plus years. Bringing in a very labor-intensive-type operation here is not very -- it wouldn't be justified for our company, and in general. So --

MR. DAVIDSON: So, for JTEKT, I mentioned our production footprint basically is to provide locally as much as possible for the local market.

For the supply inputs, it really comes down to capability and capacity availability. So, we have some more cost inputs, we have some higher-value inputs, but it really comes down -- we have aggressive localization targets for each of our product groups and commodities, where we're trying to grow that local content, because we feel that that is the best long-term strategy.

The ability not to be able to do that all at once really comes down to capacity -- or capability and capacity. And for those higher technology or innovative technologies, we have a number of core competencies that we do in-house, so we develop those in-house and we don't supply -- don't rely on supply or partners.

So, we either have an in-house strategy, or we have a strategy to localize as much as possible, based on those factors.

MR. VACCARO: Thank you.

MR. HEINEMAN: I would point to, I guess, a couple of different trends on our side, similar to, I think it was Lobosco was mentioning before, as a German company, we -- it's not unusual we develop some products in Germany with a historical supply base, and then you look to transition and find suppliers in the US, which we have done successfully over the 14 years I've been with the company.

Secondly, because we're a global company and we're linked to global OEM customers, we search the world for the best available suppliers. So that lends us to looking everywhere.

Specific electronics, I've been here the whole day, so I've heard the question. And from my judgment, we do have electronic suppliers in the US. The question starts to become a question of capacity. Because they are able to compete, the question is maybe why is there not more.

And the thought, to be honest, that was going through my head for most of the day was the carrot and the stick. And tariffs are sort of a penalty, and could impact areas that are not beneficial. Maybe the question, if the concern is electronics, if I might suggest, is how do you incentivize more electronic production in the US?

But we do have suppliers that do compete, and we just don't have enough of them in our product line.

MR. VACCARO: Thank you.

MS. PARK-SU: Are there any other questions or comments? Thank you. At this time I'd like to welcome our ninth panel to take their seats. We have a German Association of the Automotive Industry -- Bernhard Mattes -- Japan Automotive Manufacturers Association -- Manual Manriquez -- American International Automobile Dealers -- Cody Lusk. Mr. Mattes, you can begin when you're ready.

MR. MATTES: Thank you, and good afternoon. My name is Bernhard Mattes. I'm the President of the German Association of the Automotive Industry.

I would like to thank you for giving us the opportunity to speak today to this distinguished audience and explain the perspective of the German Association of the Automotive Industry, representing more than 620 companies, manufacturers of cars, trucks, buses, and automobile parts.

Personally, I have a long Transatlantic history. For many years I had the privilege to head Ford's operation in Germany. At Ford I learned about the responsibility that we share about the deep and longstanding ties that bind the automobile industry on both sides of the Atlantic.

Instead of harming the United States national security, the German automotive industry has proven to be an integral and vital part of the US economy.

Since the last recession, the US industry has experienced almost a decade of sales growth and growing employment in formerly deprived regions, and this is not least because of German automobile manufacturers' investments in the United States.

Today, our members, manufacturers, as well as suppliers, operate more than 300 plants in the US. We produce more than 800,000 cars made in USA. We created over 100,000 high-quality jobs. And this is in production only, with many more in supply services.

In total, German companies are the fourth largest foreign employer in the US, and account for almost ten percent of the total 6.8 million jobs created by foreign companies, with almost one out of every five German-created jobs being in the automotive sector.

Up to now, we have invested more than $30 billion US, and additional investments of $5 billion US. Just the next four years have already been announced.

The German auto industry in the US is not only a significant production location, but an important strategic market, and an export hub with more than 60 percent of our production being exported.

All this contributes to American wealth, prosperity and jobs, allowing this fantastic -- the country's economy -- to grow.

Take communities like Spartanburg,

South Carolina, home of the worldwide largest BMW production facility worldwide, Tuscaloosa, Alabama, home of Daimler, or the new VW manufacturing site in Chattanooga, Tennessee.

In these communities, we have created well-paid jobs. And even more, we help these communities thrive. We are part of the local and regional success stories, part of the communities.

Education. This is another very important aspect. We train our associates on the job in parallel to the attendance of theoretical engineering classes in specialized training centers.

With enhanced skills, they have a perspective for a successful future, we feel, as true American corporate citizens. And we want to continue our commitment and contribution to the wealth of American communities.

Companies in our industries are so deeply intertwined, that our fate is a common fate. Manufacturers heavily rely on open markets, due to our integrated and interdependent supply chains.

Additional tariffs will cut deeply into the tightly knit net between our companies. They would threaten our ability to export successfully out of the US, and call future investment into question.

Tariffs on US products will not only harm exports, but undermine competitiveness and strengthen other production location, with a severe negative effect on investment and employment in the US.

This scenario terrifies me. And things can be made worse by countermeasures which other countries could take. Such a scenario, rather than free trade between partners, is a risk to national security.

US national security relies on its economic performance and strength. Therefore, we share ideas of lowering and eventually abolishing tariffs and other barriers to trade in the framework of the larger agreement between Europe and the US.

We would appreciate if you and your partners in Brussels would proceed on this path. Our companies, manufacturers and suppliers are passionate about -- and proud -- of their investment in the US. And let me add, we feel that we are proud of the American dream, because what our members share is passion and responsibility, bringing jobs, skills, and prosperity to the US and to its people.

Thank you very much for your attention and the opportunity to elaborate on our comments. Thank you.

MS. PARK-SU: Thank you.

Mr. Manriquez, whenever you're ready.

MR. MANRIQUEZ: Thank you for the opportunity to speak to you today on this important matter.

My name is Manny Manriquez. I am the General Director of the Washington, DC office of the Japan Automobile Manufacturers Association, known as JAMA.

JAMA represents Japanese-brand automakers, many of which have deep investments in the United States.

JAMA members are integral to a strong and highly productive American auto industry. As of 2017, our members have cumulatively invested over $48 billion in their US manufacturing operations alone, and directly provide over 92,000 high-quality American jobs.

Our members manufacturing, R&D, and design operations, are spread out across 19 states, and when taking into account part supplier, dealership and spinoff jobs, our members support approximately 1.5 million jobs throughout the country.

We're proud to be a part of the globally competitive and technologically advanced US auto industry. Our US presence was not built overnight. Over the past 36 years, our members have continued to demonstrate their commitment to the US market and American consumers.

The strongest evidence of our

commitment is that JAMA members have increased production in the US tenfold since the mid-1980s, which has been matched by the decrease of Japanese vehicle exports to the US by half.

JAMA members now produce about one-third of the vehicles made in the US. That's nearly four million vehicles.

As we stated in our public comments, JAMA has critical concerns regarding the Section 232 investigation into automobiles and automotive parts, and the threat of import tariffs.

A number of economic analyses have concluded that automotive imports -- automotive import tariffs, rather -- would have a serious negative impact on the US economy, as well as on millions of American families who rely on competitively priced vehicles.

Tariffs are a tax on consumers that would add thousands of dollars to the price of any vehicle, whether it is built in the US or imported. This would lead to decreased US vehicle sales and production, thereby threatening US jobs.

For example, the Peterson Institute study cited previously by some of my colleagues, shows that tariffs would cause up to 195,000 US workers to lose their jobs.

Manufacturing costs would increase at our members' US plants, negatively impacting American auto workers and their families, in communities like Lafayette, Indiana, Marysville, Ohio, San Antonio, Texas, and Smyrna, Tennessee.

If other countries retaliate against the US tariffs, this would further decrease the competitiveness of US exports, and up to 624,000 American jobs could be lost.

In addition to our concerns about the negative economic impact of tariffs, we believe that the basis for this Section 232 investigation is wrong.

Imported vehicles do not threaten US national security. They increase consumer choice and create new demand in the market, contributing to the sustainable growth of the US automobile industry, including vehicle dealerships and parts suppliers.

In our public comments, we've highlighted the dramatic increases in US jobs and production over our decades-long history in the United States. Just in the immediate post-recession time span, Japanese brand automakers increased their US direct manufacturing employment by 21 percent, whereas overall US manufacturing employment increased by only six percent during this same period.

This example shows the extent to which our members have contributed greatly to US economic recovery, and the strengthening of the US manufacturing base.

Our members also boost the US auto industry's global competitiveness and push the frontier of advanced mobility, by collaborating with US-based automakers, US government agencies, and companies from various sectors.

JAMA-member companies continue to

expand and add new production, while investing in new technologies that will set the trajectory of our industry.

However, tariffs would create negative conditions for such investment, and put current and future contributions at risk. Tariffs and other restrictive actions would also irreversibly undermine the auto sector's forward motion during this crucial time, as we craft the future of mobility and redefine our industry.

Ultimately, we are concerned about the lost opportunities for technological innovation, and prospects for the global leadership of the American auto industry. Applying devastating tariffs and engaging in trade disputes would mean that we are failing to prepare the next generation of American workers for an increasingly complex environment.

We urge the Administration to consider policies that strengthen the US auto industry and the American workforce, rather than restricting their potential.

Thank you once again for the opportunity to testify on this important matter.

MS. PARK-SU: Thank you. Mr. Lusk?

MR. LUSK: Good afternoon. My name is Cody Lusk, and I am the President and CEO of the American International Automobile Dealers Association.

Thank you for the opportunity to provide testimony on behalf of America's 9600 international nameplate automobile franchises. These dealers have a positive impact both nationally and in the communities they serve, providing over half-a-million American jobs.

AIADA's dealers see new opportunities to grow and thrive in this economy, but worry that possible 25 percent tariffs will negatively affect their ability to operate and provide work for hundreds of thousands of Americans.

Across the US and in communities large and small, Americans are employed in the international nameplate automobile industry, including the 577,000 who are employed at AIADA dealerships.

With an annual payroll of $32 billion, these dealerships also account for an additional 527,000 indirect jobs.

As data shows, over half-a-million Americans stand to be adversely impacted should 25 percent tariffs be put in place on imported autos and auto parts. As has been referenced, a recent study by the Peterson Institute 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 US, the job loss would more than triple, to an astounding 624,000.

Another study by LMC Automotive on the effects of a 25 percent tariff on autos found that sales of new cars and trucks will also be impacted. Assuming automakers and dealers absorb at least half the cost of a proposed 25 percent tariff, these tariffs would lead to a loss of one million annual unit sales.

If the full burden of the tariff is passed on to the consumer, that would jump to a loss of two million units per year.

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 US.

Tariffs that take the form of taxes on consumers would significantly impact new car sales through higher prices, reduced demand, restricted choice, and new obstacles for consumers seeking auto loans.

Reasonably priced new cars keep American families safe on our road, allowing them to travel to and from school, work, and community events.

When Americans are priced out of safe, affordable transportation, those who can least afford it will be the first to suffer. When the cost of new autos rises by even the smallest amount via regulation, tariffs, or taxes, auto dealers become concerned that those new costs will reduce sales.

As a study referenced this morning by the Center for Automotive Research found, that on average, new vehicle prices would rise by $4400 if a 25 percent tariff is imposed. For imported vehicles, costs would rise to almost $7000.

Even among US-built vehicles, all of which include imported parts, prices would go up almost $2300. The impact of this would be higher monthly payment for American car purchases.

Declining sales would have a clear and definable impact on America's international nameplate dealer community. The same car study estimates that annual revenues for auto dealerships would decrease by $66.5 billion as a result of a new 25 percent tariff, and 117,000 dealership employees in communities across the country would lose their jobs.

It's worth noting that numbers like these would cause a dramatic downstream impact, not just on dealership operations, but the American economy as a whole.

AIADA respectfully disagrees with the position that imported autos and auto parts are being brought into the US in such quantities or under such circumstances as to threaten to impair the national security.

In fact, foreign manufacture investment in our communities and workers has strengthened our economy, and greatly broadened consumer choice.

AIADA and its dealer members strongly support a pro-growth economic agenda, and believe it can be accomplished with a positive trade message, not through the threat of tariffs.

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. Thank you.

MR. CASTRILLON: Thank you very much,

gentlemen, for your participation here today. We really appreciate you taking the time. We really value both your comments today and the submissions that you've made for the record, and we'll certainly be considering those as we advance with our investigation. Thank you.

MS. PARK-SU: I believe we don't have any questions for this panel. Thank you. Now, I'd like to welcome our tenth and final panel to the stage.

And we have the China Chamber of International Commerce -- Xuejia Wang -- the China Chamber of Commerce for Import and Export of Machinery and Electronic Products -- Guiqing Wang -- Keidanren -- Scott Parven -- Organization for International Investment -- Clinton Blair -- and the Law Office of William M. Hedrick -- Mr. William M. Hedrick.

Thank you. Ms. Wang, you may begin.

MS. X. WANG: Okay. Thank you, Chairperson, and good afternoon, members of the panel. My name is Xuejia Wang, with the China

Chamber of International Commerce, known as the CCOIC. We appreciate the opportunity to speak at this hearing.

Since we have submitted comprehensive comments and a rebuttal on behalf of the Chinese automobile and automotive parts industries, here I'd like to draw your attention to the following key points.

First, the CCOIC would draw the department's attention to the fact that US automobile sales have increased by more than 67 percent since the 2009 financial crisis. US car sales are projected to exceed 17 million vehicles per year through 2022.

Meanwhile, US automobile production has more than doubled from 2009 through 2016. US automobile production is expected to exceed 12 million vehicles per year through 2019, and reach 13 million by 2020.

Therefore, CCOIC believes that the US automobile industry is strong, and no evidence supports trade restrictions pursuant to this 232 investigation.

Instead, imposing trade restrictions will achieve just the opposite of what 232 investigations are intended to do. New trade restrictions will undermine the competitiveness of the US automotive industry globally, and will jeopardize the welfare of the US economy.

New trade restrictions will invite retaliation and counter-retaliation, cause widespread abuse of the national security exception, will disturb the global order on international trade, and thereby reduce global economic growth.

Second, Chinese automobiles and automotive parts imported into the United States do not threaten the US automotive industry or the national security of the United States.

From 2010 through 2018, nearly all of the US imports of automobiles were from countries other than China. The top six largest source countries have consistently accounted for more than 93 percent of total US automobile imports.

In contrast, imports of automobiles from China are small. In 2017, US imports of automobiles from China accounted for less than one percent of total US automobile imports, by volume and value.

US automotive parts imports from China are low-value products imported in small volumes, and are commercial vehicle parts that do not pose a threat to US national security.

Therefore, the CCOIC requests that the department exclude imported automobiles and automotive parts from China from this investigation, and any new trade restrictive measures.

Third, as a country with a large population, in recent years China has become the largest potential automotive market in the world, because of its sturdy and rapid economic development and the comparatively low number of automobiles per capita. In fact, China only exports a very small number of automobiles relative to its domestic sales.

From 2012 through 2016, exports of automobiles from China, on average, accounted for nearly 0.4 percent of China's domestic annual automobile sales by value.

In conclusion, the CCOIC and its members hereby ask the US government not to impose import tariffs on Chinese automobiles and automotive parts.

Trade restrictions will injure not only the Chinese automobile and automotive parts industries, but also the US automotive industry, as well as related industries, which will reduce US employment and burden American consumers.

As there's no basis for this investigation, the CCOIC urges the department to cease the investigation. The CCOIC also urges the US government to consider the impact of any remedy resulting from this Section 232 investigation, on the multilateral trading system, as well as the impact on the greater economic welfare.

Thank you very much for your

consideration. Thank you.

MS. PARK-SU: Thank you, Ms. Wang. Mr. Wang, you may begin when you're ready.

MR. G. WANG: Good afternoon, members of panel. Thank you for the opportunity to testify at today's hearing. I'm Guiqing Wang, Vice President of China Chamber of Commerce for Import and Export of Machinery and Electronic Products, or CCCME.

CCCME has about 10,000 members, including nearly 1000 automotive companies. So following views are based on our members we back.

First, the US automotive industry commerce is the most advanced automobile-producing technology in the world. Produces automobiles and the critical automotive parts domestically, and leads the global supply chains through its worldwide production layout. As a result, the US automotive industry is healthy and very competitive.

In the last decade, the production, sales, and exports, of US automobiles have grown steadily. The industry's employment has stabilized and increased, and the profits have constantly grown.

In addition, the US automotive industry has gained substantial returns through its investments in China. US consumers also benefit from it. They are able to enjoy more cost-effective products.

Therefore, any threat to US national security and the domestic automotive industry does not exist at all.

Second, automobile and automotive parts trade between China and the US is dominated by the US state. In fact, the majority of automobiles imported from China are manufactured by US automotive companies in their Chinese plants, and as such, imports only account for less than one percent of US total imports.

Furthermore, most US imports of automotive parts from China are purchased for the US aftermarket sector, and some others are used as accessories. However, these automotive parts from China only amounted to less than four percent of US aftermarket sales.

Therefore, US imports of automobiles and automotive parts from China are negligible, and clearly do not threaten the national security of the United States or the US automotive industry.

Third, additional tariffs on imports of automobiles and automotive parts will cause many negative impacts to the US. Because automotive parts, testing and certificating is a time-consuming process.

If additional tariffs are imposed, US automotive manufacturers will be faced with difficulty of fighting other suppliers, and the increased cost, and eventually will lose their competitive advantage.

Further, US maintenance companies will also face the risk of the shortage of supply of automotive parts, as well as increasing costs and declining profits.

These negative impacts will, in turn,

increase prices of production in the market, directly harming the interests of American consumers.

Additional tariffs will also disrupt the global industries supply chain, harming international cooperation. We have noticed that many interested parties have expressed their opposition to trade restrictions.

They believe additional tariffs will impede the development of US automobile industry, harm the interests of consumers, and reduce the employment.

In conclusion, CCCME considers that US Department of Commerce should exempt Chinese automobiles and automotive parts from any restrictive trade measures being considered. Thank you.

MS. PARK-SU: Thank you, Mr. Wang. Mr. Parven?

MR. PARVEN: Thank you very much, and good afternoon, distinguished panelists. Thank you for the opportunity to provide brief remarks on behalf of Keidanren and its 1,376-member companies, 109 trade associations, and 47 regional economic organizations.

Many of the companies Keidanren represents have significant and long-running operations in the United States, employing hundreds of thousands of Americans. Like the vast majority of speakers today, Keidanren does not believe that imports of automobiles and auto parts undermine the national security interests of the United States, nor does it necessitate the imposition of tariffs.

For several decades, Japanese companies are very proud to have made billions of dollars of investments in communities throughout the United States.

Those investments have strengthened the economic security of the United States, without harming national security within the meaning of Section 232.

The United States and Japan are committed, trusted partners and global leaders.

They share security cooperation, trade ties, bilateral investments, and core values.

Japanese companies have invested billions of dollars in the United States to help grow the US economy, increase US GDP, and create hundreds of thousands of jobs.

It is disappointing that those Japanese companies with growing operations in the United States may be punished for their significant investments. Future investments and many American jobs depend upon the continued growth of those operations.

Currently, Japanese foreign direct investment in the United States is a whopping $421 billion in stock value, and $34 billion in flow, making Japan one of the top investors in the United States.

Potential tariffs imposed under Section 232 would have a chilling effect on foreign investment in the United States for many years to come. Without those key investments, the economic security and global competitiveness of the United States may be undermined.

Japanese companies historically contribute to strengthening US national security through substantial investments in research and development.

Japanese companies have invested more than $57 billion in R&D within the United States, and that number continues to grow. Those investments help train US workers, develop new technologies, and provide tremendous opportunities for US engineers and scientists.

In Mineral Wells, West Virginia, for example, Hino Motors Manufacturing is planning to open a $100 million plant in 2019. In Alabama, Toyota and Mazda have established a joint venture company to manufacture automobiles together at a new $1.6 billion plant.

Ultimately, Japanese companies contribute significantly to the economic security of the United States. Japanese businesses have created more than 856,000 jobs through direct investments as of 2015. On top of that, trade with Japan accounts for an additional 1.3 million jobs throughout the United States.

In the auto sector alone, Japanese automakers, directly and indirectly, account for more than 1.5 million US jobs, many of which are highly skilled jobs that include significant worker training.

Japanese automakers and Japanese companies as a whole have consistently demonstrated their decades-long commitment to supporting the US economy.

Japanese companies are dedicated to upholding a rules-based, open and mutually beneficial global trading system.

Based on this testimony and the comments submitted, Keidanren asks that the department find that current auto and auto part imports do not harm national security interests, and therefore, tariffs or other restrictive measures are not necessary. Thank you very much.

MS. PARK-SU: Thank you. Mr. Blair?

MR. BLAIR: Good afternoon. My name

is Clinton Blair. I'm Vice President of Government Affairs at the Organization for International Investment, commonly known as OFII.

OFII members are among the largest international companies with operations here in the United States. That includes most of the international auto manufacturers and many of the leading auto parts manufacturing companies.

Every day at OFII, we work here in Washington to tell the good news story of foreign direct investment and its benefits to the US economy. Most OFII-member companies are in the manufacturing sector, in line with overall foreign direct investment here in the USA.

While more than 60 percent of all international companies in the United States have fewer than 1000 US employees, OFII members, on average, have more than 12,000 Americans for each company.

OFII-member companies are globally headquartered in countries largely considered to be America's long-time allies -- the United

Kingdom, France, Canada, Japan, Germany, and South Korea.

Not only do these companies make all -- make the US economy more resilient, they ensure nations all over the globe now have a stake in America's economic success.

On behalf of our 209-member companies, I'm pleased to be here to explain why the proposed national security tariffs are unnecessary and misguided.

Given the national security pretext of what seems to be the Administration's desire to consider a bygone industrial policy, I would request your full attention to the following two powerful stories from veterans of our armed services. I'm quoting now.

It was a struggle. As soon as I got accepted into the program, I saw kind of a light at the end of the tunnel. Now I can't wait to get back to work and get my hands dirty.

Those are the words of an aircraft electrician who defended this country's national security through a 20-year Air Force career that included nine tours in Asia. He's describing the challenges he faced in transition into civilian life in finding a job in the country that he spent decades defending overseas.

I'd like to share another one with you, this from a V-22 Osprey mechanic, a sergeant in the United States Marine Corps. Quoting again.

When I left the military, I didn't really have a mission anymore. I was on my own, trying to fit in, trying to figure out where I was and what my purpose was again. The program has been pretty awesome. Finding something that actually helps veterans is number one in my book.

My future is now clear and I am going to keep expanding my horizons with this company, and see where the road takes me.

The program these American heroes are describing was developed by Jaguar Land Rover North America, through its Veterans Career Program.

Further, Mercedes-Benz was the first luxury automotive manufacturer to partner with the US Department of Labor and the Department of Veterans Affairs, to offer a registered apprenticeship program.

Ironically, on the same day that the President has unveiled his pledge to American workers initiative, which is intended to provide "new opportunities for students and workers through apprenticeships and work-based learning," the Department of Commerce is holding this hearing to determine whether international automakers which have a long track record of providing world-class workforce training programs, are a threat to US national security.

For example, Toyota developed the advanced manufacturing AMT program designed to provide both classroom instruction and paid, hands-on experience at world-class manufacturing facilities.

Students in this program can graduate debt-free from the income they earn through the program, earning an Associate's and Advanced Manufacturing degree. Likewise, Hyundai Motor manufacturing in Montgomery, Alabama, partners with Trenholm State Community College to run a six-month maintenance apprenticeship program that includes both classroom and hands-on training.

I could provide you with additional examples, but suffice it to say, invoking US national security to impose a bygone industrial policy intended to hamper the ability of these companies to benefit the US economy, is very difficult, is an affront to the economic contributions and support of America's workforce, including veterans and transitioning military.

Thank you for your time. Pleased to be here today.

MS. PARK-SU: Thank you, Mr. Blair. Mr. Hedrick, whenever you're ready.

MR. HEDRICK: Hi, good afternoon, and thank you for allowing me to testify today.

My name is William Hedrick. I am an attorney specializing in automotive import law and seizure and forfeiture defense in Raleigh, North Carolina.

I first became involved in automotive import law within the last four to five years as a result of numerous seizures that happened throughout the United States by the Department of Homeland Security.

Predominantly, I represent consumers. Those who are collectors, world travelers, people traveling through the US. I also do a lot of representation with regards to US military service members who are returning from duty stations overseas, who run into issues with having vehicles which they drive while they're stationed in Europe, Australia, and Japan -- wherever they may be -- and they want to bring those vehicles back with them, but they run into compliance issues.

I work with both USDOT and the EPA to oversee, and hopefully overcome, those issues in most cases.

I thank you for your time this

afternoon. It's my position that, predominantly with regard to classic motor vehicles, these don't present a national security risk, let alone the majority of newer motor vehicles.

And this law, as it is proposed -- or this tariff is proposed -- would significant prejudice those interests. Under the Harmonized Tariff Code, Sections 703 and 8707, they don't make any delineation between a used car and a new car.

What constitutes a classic vehicle under both NHTSA regulations and EPA regulations, are vehicles that are over 25 and 21 year-old, respectively, and those vehicles are exempted from those regulations.

Classic car industry here in the US represents a multi-billion dollar industry, and the proposed tariff could meet with some somewhat varied test results.

I represent a number of collectors who purchase vehicles at auctions or otherwise overseas. For example, if a classic car collector were to purchase at auction or elsewhere, a vehicle such as a Ferrari or Mercedes -- you can pick one -- that had a value of $1 million, under the current tariff schedule, they would pay $25,000 in import duty upon arrival here in the US.

Under the proposed schedule, that would be a quarter million dollars, which seems a bit off when you consider the implications or the impact of that vehicle upon its arrival here in the US.

In addition to that, if you look at the number of vehicles -- and this is per NHTSA's regulation -- no less than 20 percent of any vehicle built here in the US of A is comprised of foreign manufactured parts. And actually, that number speaks to the percentage of parts that are manufactured both US and Canada. These were published on NHTSA's website.

To that end, I'm here to advocate for those consumers who are classic car collectors, those who import vehicles from abroad -- we have a long history of supporting classic vehicles here in the United States, and -- I think actually Congress submitted the alliance a couple of years, actually made it an official Classic Car Day, which is, I believe, represented in June.

So I am here to represent the interests of those individuals, and I thank you for your time this afternoon.

MR. CASTRILLON: Well, thank you all very much for your willingness to participate and advise us on the unique perspectives of your companies, your countries, the industries that you represent. We'll be taking into account both your comments today and the submissions that you've made, as part of our investigation.

We don't have any further questions for you. I know it's been a long day. At this time I'd like to invite our Assistant Secretary for Industry and Analysis, Ms. Nazak Nikakhtar, to come up and give some closing remarks.

MS. NIKAKHTAR: Thank you. I just --

in closing remarks very briefly, I wanted to sincerely thank all the US government officials from the different agencies for taking the time to come in here today.

This investigation, we understand that it's a complex investigation. So we are pulling in our colleagues at different government agencies, who've all enthusiastically volunteered to help us scope out these complex issues.

So we're grateful for them. I know it's been a long day for many of you, so thank you for taking the time, not just to submit comments, but provide all the data, provide all the input, and submit those comments to the Commerce Department, and then, of course, take the time out of all your busy schedules to be here today.

We are carefully -- I can't emphasize enough -- we are really, really are carefully analyzing all the information that's been provided today, that's been provided in the comments, some of the statistical analysis reports that commenters have cited, we're looking at those.

We're doing our own industry and economic analysis. We really underscore the complexity of this industry, and the global nature of supply chains in the production systems.

Many of the testifiers described those supply chains today, and it's for that reason that we wanted to ensure that we had open, transparent comment system that really enabled stakeholders to voice -- to provide a platform where they could share their inputs with them, so we have the opportunity -- and also to -- importantly, to rebut each other's input too, so that we have -- we're able to scope these issues out from all different angles, so we really understand -- so we can really understand all the complexities of the industries and where the details lie. So our analysis takes into account all of those details.

We will, in the coming weeks, conduct

a thorough, fair, and transparent, investigation that takes into account all the relevant facts, all the input from stakeholders, all the economic analysis that's been provided to us before reaching a final determination.

We can't thank you enough for your input and your assistance and your participation. We value all of your input, and thank you again for your participation and contributions.

(Whereupon the above-entitled matter went off the record at 4:24 p.m.)

A

B

G

H

O

3

4

5

6

7

8

C E R T I F I C A T E

This is to certify that the foregoing transcript

In the matter of: National Security Investigation of Imports of Automobiles & Auto Parts

Before: US DOC

Date: 07-19-18

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

Neal R Gross

Court Reporter

Appendix D

Appendix D: Details on U.S. Harmonized Tariff System (HS) Statistics

1. Automobile Parts HS-10 Codes

3819000000	4012105009	7007211010	8409999110
3819000010	4012105015	7007215000	8409999190
3819000090	4012105019	7009100000	8413301000
3820000000	4012105025	7315110005	8413309000
4009120020	4012105029	7318160010	8413309030
4009220020	4012105035	7318160015	8413309060
4009320020	4012105050	7318160030	8413309090
4009420020	4012108009	7318160045	8413911000
4009500020	4012108019	7320100015	8413919010
4010101020	4012108029	7320103000	8414308030
4011100010	4012108050	7320106015	8414593000
4011100050	4012114000	7320106060	8414596040
4011101000	4012118000	7320201000	8414596540
4011101010	4012124015	8301200000	8414598040
4011101020	4012124025	8301200030	8414800500
4011101030	4012124035	8301200060	8415200000
4011101040	4012128019	8302103000	8415830040
4011101050	4012128029	8302303000	8415900040
4011101060	4012128050	8302303010	8415908040
4011101070	4012194000	8302303060	8415908045
4011105000	4012198000	8302306000	8421230000
4011200005	4012205000	8407341400	8421310000
4011200010	4012206000	8407341540	8421394000
4011200015	4013100010	8407341580	8425490000
4011200020	4013100020	8407341800	8426910000
4011200025	4016931010	8407342040	8431100090
4011200030	4016931020	8407342080	8482101000
4011200035	4016931050	8407344400	8482101040
4011200050	4016931090	8407344540	8482101080
4011201005	4016993000	8407344580	8482105044
4011201015	4016995010	8407344800	8482105048
4011201025	4016995500	8408202000	8482200010
4011201035	4016996010	8409911040	8482200020
4011205010	6813100050	8409913000	8482200030
4011205020	6813200015	8409915010	8482200040
4011205030	6813200025	8409915080	8482200050
4011205050	6813810050	8409915081	8482200060
4012104005	6813890050	8409915085	8482200070
4012104015	6813900050	8409919110	8482200080
4012104025	7007110000	8409919190	8482400000
4012104035	7007110010	8409919910	8482500000
4012105005	7007211000	8409991040	8483101030

8483103010
8501324500
8507100060
8507304000
8507404000
8507600010
8507904000
8507908000
8511100000
8511200000
8511300040
8511300080
8511400000
8511500000
8511802000
8511806000
8511902000
8511906020
8511906040
8512202000
8512202040
8512204000
8512204040
8512300020
8512300030
8512300040
8512402000
8512404000
8512902000
8512906000
8512907000
8512909000
8517120020
8519812000
8519910020
8519911000
8519934000
8525201500
8525206020
8525209020
8525601010
8527211005
8527211010
8527211015
8527211020
8527211025
8527211030
8527211500
8527212510
8527212525
8527214000
8527214040
8527214080
8527214800
8527290020
8527290040
8527290060
8527294000
8527298000
8527298020
8527298060
8531800038
8531808038
8531809031
8531809038
8536410005
8536906000
8539100010
8539100020
8539100040
8539100050
8539212040
8544300000
8707100020
8707100040
8707905020
8707905040
8707905060
8707905080
8708100010
8708100050
8708103010
8708103050
8708106010
8708106050
8708210000
8708290010
8708290025
8708290050
8708290060
8708291000
8708291500
8708292000
8708292500
8708295010
8708295025
8708295060
8708301090
8708305020
8708305030
8708305040
8708305090
8708315000
8708395010
8708395020
8708395030
8708395050
8708401000
8708401110
8708401150
8708402000
8708405000
8708407000
8708407500
8708407570
8708407580
8708503000
8708505000
8708505110
8708505150
8708506100
8708506500
8708507900
8708508000
8708508100
8708508500
8708508900
8708509110
8708509150
8708509300
8708509500
8708509900
8708605000
8708608010
8708608050
8708704530
8708704545
8708704560
8708706030
8708706045
8708706060
8708708010
8708708015
8708708025
8708708030
8708708035
8708708045
8708708050
8708708060
8708708075
8708801300
8708801600
8708803000
8708804500
8708805000
8708806000
8708806510
8708806590
8708915000
8708917000
8708917510
8708917550
8708925000
8708927000
8708927500
8708935000
8708936000
8708937500
8708945000
8708947000
8708947510
8708947550
8708950500
8708952000
8708993000
8708995005
8708995010
8708995020
8708995030
8708995045
8708995060
8708995070
8708995080
8708995085
8708995090
8708995200
8708995300
8708995500

8708995800
8708996100
8708996400
8708996700
8708996710
8708996720
8708996790
8708996805
8708996810
8708996820
8708996890
8708997030
8708997060
8708997330
8708997360
8708998005
8708998015
8708998045
8708998060
8708998080
8708998105
8708998115
8708998160
8708998180
8716905010
8716905030
8716905045
8716905050
8716905055
8716905056
8716905059
8716905060
9029104000
9029108000
9029204080
9029902000
9029908040
9029908080
9104002510
9104004000
9104004510
9401200000
9401200010
9401200090
9401901000
9401901010
9401901020
9401901080
9401901085

2. Automobile Parts Schedule B Codes

3819000000	7009100000	8507904000	8708100010
3820000000	7320100000	8507904050	8708100050
4009120020	7320201000	8507908000	8708210000
4009220020	8301200000	8511100000	8708290010
4009320020	8302103000	8511200000	8708290025
4009420020	8302300000	8511300040	8708290050
4009500020	8407342000	8511300080	8708290060
4011100010	8407342030	8511400000	8708295025
4011100050	8407342090	8511500000	8708295070
4011101000	8408202000	8511802000	8708295170
4011105000	8409914000	8511806000	8708300010
4011200005	8409994000	8511906020	8708300050
4011200010	8413301000	8511908000	8708310000
4011200015	8413309000	8512202000	8708390000
4011200020	8413911000	8512204000	8708401000
4011200025	8413919010	8512300000	8708401110
4011200030	8414308030	8512300030	8708401150
4011200035	8414593000	8512300050	8708402000
4011200050	8414596040	8512402000	8708403500
4011201005	8414598040	8512404000	8708406000
4011201015	8414800500	8512902000	8708408000
4011201025	8415200000	8512905000	8708500050
4011201035	8415830040	8512908000	8708504110
4011205010	8421230000	8517120020	8708504150
4011205020	8421310000	8519812000	8708507200
4011205030	8421394000	8525201000	8708600050
4011205050	8425490000	8525206000	8708700050
4012105020	8426910000	8525209020	8708800050
4012106000	8431100090	8525209050	8708805000
4012110000	8482101000	8525601010	8708807000
4012120000	8482105044	8527190000	8708915000
4012190000	8482105048	8527210000	8708918000
4012200000	8482200020	8527290000	8708925000
4013100010	8482200030	8531800038	8708928000
4013100020	8482200040	8531809038	8708935000
4013900000	8482200060	8536410005	8708945000
4016995010	8482200070	8539100020	8708948000
6813100000	8482200080	8539100040	8708950000
6813200000	8482400000	8544300000	8708990045
6813810000	8482500000	8707100020	8708990050
6813890000	8483101020	8707100040	8708990070
6813900000	8483103010	8707905020	8708990090
7007110000	8507100050	8707905040	8708990095
7007211000	8507100060	8707905060	8708995800
7007215000	8507400000	8707905080	8708996100

8708998015	8708998130	9029100000	9401200000
8708998030	8708998175	9029205000	9401901000
8708998075	8716900000	9029900000	9401901010
8708998115	8716905000	9104000000	9401901080

3. Passenger Vehicle HS-10 Codes

8703220000	8703230062	8703240050	8703330060
8703220100	8703230064	8703240052	8703330145
8703230015	8703230066	8703240054	8703400010
8703230022	8703230068	8703240056	8703400020
8703230024	8703230072	8703240058	8703400030
8703230026	8703230074	8703240060	8703400040
8703230028	8703230075	8703240062	8703400070
8703230030	8703230076	8703240064	8703600020
8703230032	8703230078	8703240066	8703600030
8703230034	8703230120	8703240068	8703600060
8703230036	8703230130	8703240075	8703600080
8703230038	8703230140	8703240140	8703700030
8703230042	8703230160	8703240150	8703700070
8703230044	8703230170	8703240160	8703800000
8703230045	8703240032	8703310000	8703900000
8703230046	8703240034	8703310100	8703900100
8703230048	8703240036	8703320010	8704210000
8703230052	8703240038	8703320110	8704310020
8703230060	8703240042	8703330045	8704310040

4. Passenger Vehicle Schedule B Codes

8703220000	8703320010	8703600020
8703220100	8703320110	8703600030
8703230020	8703330045	8703600040
8703230060	8703330060	8703600060
8703230075	8703330145	8703600070
8703230145	8703400010	8703600080
8703230160	8703400020	8703700010
8703230170	8703400030	8703700030
8703240050	8703400040	8703700070
8703240060	8703400060	8703800000
8703240075	8703400070	8703900000
8703240140	8703400080	8703900100
8703240150	8703500010	8704210000
8703240160	8703500030	8704310020
8703310000	8703500070	8704310040
8703310100	8703600010	

Appendix E

Appendix E: Technical Appendix – Detailed Economic Impact, R&D Expenditure Estimates, and Methodology

1. Impact of Tariffs on Automobiles & Automobile Parts, Recommendation Option 2

Summary of Short Run Economic Impacts

- To estimate the economic impacts of tariffs proposed under option 2 of the Secretary's Recommendations, the Department of Commerce adjusted the standard GTAP model to account for the current 232 and 301 tariffs on imported products, the implementation of the Comprehensive Economic and Trade Agreement, CETA, between Canada and the European Union, and the elasticity of substitution parameter between domestic and imported automobiles and automobile parts.[1]

- Incorporating the foregoing adjustments into the GTAP model, the 25 percent tariff on automobiles and automobile parts that are critical to national security (engines and parts, transmissions, and powertrain parts, and electrical components)[2] from outside the North American region would result in a 25.5 percent reduction in imports of automobiles and a 10.5 percent reduction in imports of all automobile parts.

- Domestic U.S. output in the automobile sector would increase by 9.2 percent and output in the automobile parts sector would increase by 8.9 percent.

- Employment also grows in the U.S. automobile and automobile parts sectors, increasing by 11.4 percent in automobile manufacturing and by 10.1 percent in automobile parts manufacturing. Combined, this would be more than 81,600 jobs.

- Sectors that are upstream from the automotive sector, such as steel and fabricated metal products, generally benefit from the tariffs. In addition, the retail and wholesale trade services sector, which includes dealerships and automotive repair services, also benefit. The increase in automobile and

[1] A detailed discussion of these adjustments can be found in "2. Methodology" portion of this Appendix.
[2] *See* Section VIII.

automobile parts production stimulates output and employment in these sectors, adding an additional 14,700 jobs.

- It is estimated that R&D expenditures in the United States by American-owned automobile producers could increase by as much as [redacted] while expenditures in the United States by foreign-owned producers are estimated to increase by [redacted]. Global R&D expenditures by major automobile parts producers headquartered in the United States could increase by [redacted].

Macroeconomic U.S. Impacts

The GTAP-based analysis estimates the short run[3] (approximately 0-3 years) economic impacts of the proposed tariffs on automobiles and automobile parts. These estimates exempt imports of automobiles and automobile parts from Canada and Mexico up to the volumes stipulated in the USMCA Side Letters, but do not consider any other country-level exemptions to these tariffs. In particular, the GTAP model shows that the recommended tariffs on imports will increase output in the U.S. automobile and automobile parts manufacturing sectors. Employment in both of these sectors would also increase.

GTAP also estimates a four percent increase in the average consumer price of automobiles. This is largely due to the increase in prices of imported vehicles, which is necessary to correct for price suppression caused by low-priced imports.

[3] The baseline, closure, and other assumptions implemented in the model are discussed in the "2. Methodology" section of this Appendix.

Table E.1. Estimated Short Run Impacts of Proposed Tariffs

Values Represent the Percent Change in Quantity from Baseline	
U.S. Employment	-0.03
*All Automotive**	*8.7*
Automotive Sector Impacts	
Automobiles	
Imports	-25.5
Exports	-5.5
Output	9.2
Employment	11.4
Automobile Parts (All)	
Imports	-10.5
Exports	3.0
Output	8.9
Employment	10.1
Related Sector Output Changes	
Iron & Steel Products	0.5
Fabricated Metal Products	0.5
Other Automotive	0.1
Retail & Wholesale Trade	0.02
Related Sector Employment Changes	
Iron & Steel Products	0.5
Fabricated Metal Products	0.5
Other Automotive	0.1
Retail & Wholesale Trade	0.02

Source: Department of Commerce estimates.
Imports of automobiles and automobile parts from Canada and Mexico are not subject to the tariff, but are limited to the quotas stipulated in the USMCA Side Letters.

Sectoral Impacts

The GTAP model estimates an increase in the output of the U.S. automobile and automobile parts sectors (Table E.1). It also estimates increases in sectors that provide inputs to the automotive industry, such as the iron and steel products and fabricated metal products sectors, as well as retail and wholesale trade. The model also estimates that output in other sectors may contract slightly (averaging less than one percent) as they compete for inputs with an expanding automotive sector, increasing input costs, and falling demand due to lower consumer spending. These include the electrical equipment, other transportation equipment, machinery, nonferrous metal products, and construction sectors.

In terms of employment, the GTAP model estimates that the number of workers in the automotive sector as a whole will increase by nearly 9 percent, with additional employment increases in related sectors such as iron and steel products (+0.5 percent), fabricated metal products (+0.5 percent), and retail and wholesale trade (+0.02 percent). Together, employment in the automotive sector increases by approximately 81,800 jobs and employment in these related sectors increases by an additional 14,700 jobs. Employment in other sectors are estimated to decrease.[4] The decline in employment overall is small – specifically three one hundredths of one percent.

Impact on R&D Expenditures

GTAP model results indicate that the volume of automobile output in the United States would increase by 9.2 percent while the value of automobile output is estimated to increase by 10.5 percent. Using the relationship between U.S. R&D expenditure[5] and the value of production[6] inferred from the U.S. Producers' Survey Responses, it is estimated that the expected change in the value of automobile

[4] Lower employment in other business services (-0.03 percent), construction (-0.4 percent), and electrical equipment manufacturing (-1.6 percent) account for most of the sectoral reductions in employment.
[5] U.S. Producers' Survey Responses, Question 10a.
[6] U.S. Producers' Survey Responses, Question 2b.

production has the potential to result in the increase in U.S. R&D expenditures by American-owned firms of approximately [redacted] or more.[7]

Investment by foreign-owned producers in U.S. R&D is smaller than the amount invested by American-owned producers. Applying a similar methodology to U.S. R&D expenditures and production by foreign-owned producers results in an additional [redacted] increase in U.S. R&D expenditures.

Data for R&D expenditures by automobile parts manufacturers is limited to global R&D expenditures by top American-owned firms. The recommended tariffs are estimated to increase the value of all parts produced in the United States parts by 9.7 percent. If this estimated increase is applied to available data on global R&D expenditures by top American-owned manufacturers of automobile parts,[8] it is estimated that R&D expenditures of those manufacturers would increase by $138 million.

[7] Based on Department of Commerce analysis of the U.S. Producers' Survey, the ratio of R&D expenditure in the U.S. to total production value averages [redacted] for American-owned producers and [redacted] for foreign-owned producers with an overall average of [redacted] for all U.S. producers. Applying this ratio to the expected change in the value of automobile production results in a [redacted] increase in U.S. R&D expenditure by American-owned producers. However, the ratio of U.S. R&D expenditure to production value varies by producer and can change over time. If American-owned producers position themselves to be more R&D intensive, then the increase in U.S. R&D expenditure by American-owned producers could be [redacted] or more.

[8] PwC, *The 2017 Global Innovation 1000 Study*, 2018, https://www.strategyand.pwc.com/innovation1000#VisualTabs3.

2. Methodology

The GTAP model is a publicly-available, general equilibrium model that is widely used for policy research. It is a static model, and it assumes that economies are characterized by perfect competition and that there are constant returns to scale. Like all economic models, there are downsides to the use of the GTAP model for policy analysis. General equilibrium models represent abstractions from reality and require assumptions regarding formulizations and data. Further, the results of an analysis can be very sensitive to the model's specifications, the data employed, and choices regarding parameter values such as elasticity.

In particular, the GTAP model assumes that increased activity in the automotive industry, or any other industry, reduces available resources for the rest of the economy. This causes, among other things, decreased employment in many other sectors. Some of these sectors – including electronics, rubber, and plastics – are suppliers to the automotive industry. Yet others sectors are relatively unconnected to the automobile or automobile parts sectors. In addition, the GTAP model identifies outcomes at a point in time and does not account for employment and output growth observed in the real world. To this extent, the model's findings of contraction in certain industries might be overstated when viewed from a longer term perspective.

Notwithstanding the GTAP model's limitations, the model estimates that the overall impact on the U.S. economy from the proposed tariffs is very small – specifically a GDP growth slowdown of only four hundredths of a percent (-0.04) or about $8.5 billion in a nearly $20 trillion economy. However, the positive impacts on the output of the automobile and automobile parts manufacturing sectors, 9.2 percent and 8.9 percent respectively, are more pronounced as is the total industry employment increase of 11.4 percent in the automobile sector and the 10.1 percent increase in the automobile parts sector. The indicated incremental revenues to the automobile and automobile parts manufacturing industries will contain high incremental profit margins and therefore will provide more R&D funding for domestic producers and less imports from abroad. It will also provide enough market share increase to buttress domestic production through the next cyclical downturn.

Tables E2 and E3 provide specific information on sector definitions and regional aggregations used in the simulations.

Model Framework

Baseline Data Updates

Prior to implementing the tariffs on automobiles and automobile parts, the GTAP database was modified to consider changes in production and tariffs that have occurred since 2014. First, the database was updated from the 2014 base year in version 10 of the GTAP database to reflect global conditions in 2016. Second, the tariffs[9] in the baseline were modified to account for the implementation of the CETA between Canada and the European Union, [10] and the tariffs implemented by the United States under the Sections 232[11] and 301[12] investigations that were concluded in 2018. Finally, the aggregate GTAP "motor vehicles and parts" sector was split into three sub-sectors: "automobiles" (which includes automobiles, light trucks, SUVs, and CUVs), "automobile parts" and "other automotive."

[9] Changes to U.S. tariffs related to the CETA, Section 232, and Section 301 were implemented using the AlterTax procedure in GTAP. "AlterTax" refers to a specific tool in RunGTAP that uses a special closure and parameter file to allow for incorporating improved information on taxes in the database while minimizing the impacts of these tax changes on the value flows in the database. For more information on the AlterTax procedure, *see* Gerard Malcolm, *Adjusting Tax Rates in the GTAP Data Base*, Purdue University, Center for Global Trade Analysis Global Trade Analysis Project (GTAP), 1998, https://www.gtap.agecon.purdue.edu/resources/download/580.pdf.

[10] The CETA entered into force provisionally on September 21, 2017, eliminating 98 percent of the tariffs between Canada and the European Union. An additional one percent of tariffs will be eliminated over a seven-year phase out period. Tariffs not yet eliminated include those on certain meat products, grains, passenger vehicles, and dairy products. *See* Government of Canada, *CETA: A progressive trade agreement for a strong middle class*, Global Affairs Canada, https://www.international.gc.ca/gac-amc/campaign-campagne/ceta-aecg/index.aspx?lang=eng; European Commission, *Comprehensive Economic and Trade Agreement*, http://ec.europa.eu/trade/policy/in-focus/ceta/.

[11] List of tariff line items available from: https://www.commerce.gov/section-232-investigation-effect-imports-steel-us-national-security and https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-aluminum-united-states/.

[12] List of tariff line items available from: https://ustr.gov/sites/default/files/enforcement/301Investigations/List%201.pdf, https://ustr.gov/sites/default/files/enforcement/301Investigations/List%202.pdf, and https://ustr.gov/sites/default/files/enforcement/301Investigations/Tariff%20List-09.17.18.pdf.

Short Run Closure

The standard GTAP closure assumes full employment, that is, the real wage is assumed to be flexible so that there is no change in the total employment level of an economy. However, in this analysis the closure was amended to represent short-run impacts where firms have limited ability to shift production or adjust their supply chain. This amended closure assumes that the real wage for unskilled labor is inflexible. In addition, the model also imposed a restriction on capital that limits the mobility of existing capital between sectors.

Disaggregating the Automobile Sector

In order to properly assess the impact of tariffs on automobiles and automobile parts separately, the aggregate "motor vehicles and parts" sector in the database needed to be disaggregated into three new sectors: automobiles, automobile parts, and an "other" automotive category.

To disaggregate this sector, data on bilateral import flows, global production, and United States input-output relationships were used to adjust the underlying use, cost, cross, and trade matrices in the database.[13] Bilateral merchandise trade data from the UN Comtrade database was used to adjust the trade matrix, as well as infer the composition of regional production for regions where detailed production information is unavailable. The composition of export flows from a region was used as a proxy to adjust aggregate automotive production data. It was also assumed that the use relationships present in detailed United States input-output data are representative of the patterns present in the entire automotive industry worldwide, enabling adjustment of the use, cross, and cost matrices.[14]

[13] These matrices were edited using the SplitCom application developed by Mark Horridge at the Centre of Policy Studies. Further information about this program is available at https://www.gtap.agecon.purdue.edu/resources/splitcom.asp.

[14] The AlterTax procedure was also used to adjust tariff rates in the new database to better represent bilateral average applied tariff rates for automobiles and automobile parts separately.

Elasticity of Substitution Parameter

The standard GTAP model assumes an elasticity of substitution between domestic and imported products in the original aggregate "motor vehicles and parts" sector of 2.8. However, research suggests that the true elasticity for the U.S. market could be higher than the standard assumption. A review of relevant literature suggests that a more appropriate average elasticity of substitution for the U.S. automotive market is closer to 5.0, which is employed here. [15]

---

[15] Alternate estimates for Armington elasticities were found in the following studies:

- William A. Donelly, Kyle Johnson, Marinos Tsigas, and David Ingersoll, *Revised Armington Elasticities of Substitution for the USITC Model and the Concordance for Constructing a Consistent Set for the GTAP Model*, U.S. International Trade Commission Office of Economics, January, 2004, https://www.usitc.gov/publications/332/ec200401a.pdf.
- Xiao-guang Zhang & George Verikios, *Armington Parameter Estimation for a Computable General Equilibrium Model: A Database Consistent Approach*, Economics Discussion / Working Papers 06-10, The University of Western Australia, Department of Economics, 2006, https://ecompapers.biz.uwa.edu.au/paper/PDF%20of%20Discussion%20Papers/2006/06_10_Verikios.pdf.
- Michael P. Gallaway, Christine A. McDaniel, and Sandra A. Rivera, *Short-run and long-run industry-level estimates of U.S. Armington elasticities*, The North American Journal of Economics and Finance, 49-68, 2003, https://www.gtap.agecon.purdue.edu/resources/download/1338.pdf.

Sector and Region Definitions

Table E2: Simulation Sector Aggregation

Goods	
Agriculture	
Grains & Crops	Paddy rice; wheat; other grains; vegetables and fruit; oil seeds; sugar cane and sugar beet; plant fibers; other crops
Meat Products & Livestock	Cattle; other animal products; wool and silk; cattle meat; other meat; raw milk
Extraction	
Extraction	Coal mining; gas extraction; other mining
Forestry & Fishing	Forestry and logging; fishing, hunting, and trapping
Manufacturing	
Chemicals, Rubber, & Plastic Products	Basic chemicals; other chemical products; rubber and plastics products
Electrical Equipment	Office, accounting, and computing machinery; radio, television, and communication equipment
Fabricated Metal Products	Sheet metal products
Iron & Steel	Basic iron and steel production and casting
Machinery	Machinery and equipment
Automobiles	Automobiles
Automobile Parts	Automobile parts
Other Automotive	Trucks, trailers, and semi-trailers
Nonferrous Metals	Production and casting of copper, aluminum, zinc, lead, gold, and silver
Nonmetallic Mineral Products	Cement, plaster, lime, gravel, concrete
Other Manufactures	Leather products; other manufactured goods, not elsewhere included
Other Transportation Equipment	Other transportation equipment
Paper & Publishing Products	Publishing, printing, and reproduction of recorded media
Petroleum & Coal Products	Coke oven products; refined petroleum products; processing of nuclear fuel
Processed Food	Vegetable oils and fats; dairy products; sugar; beverages and tobacco; other food products
Textiles & Apparel	Textiles; wearing apparel
Wood Products	Wood and products of wood and cork, except furniture; articles of straw and plaiting materials
Services	
Construction	Construction
Ground Transport	Road, rail; pipelines, auxiliary transport; travel agencies
Water Transport	Water transport services
Air Transport	Air transport services
Other Business Services	Communications; other financial services; insurance; real estate, renting; business activities; recreation; government services

Retail & Wholesale Trade	Retail sales; wholesale trade and commission trade; hotels and restaurants; repairs of automobiles and household goods; retail sale of automotive fuel
Utilities	Electricity production, collection, and distribution; gas distribution; water collection, purification, and distribution

Table E3: Simulation Region Aggregation

United States	Mexico
Brazil	Taiwan
Canada	Rest of East Asia
China (including Hong Kong)	Rest of Latin America
Germany	Rest of the European Union
Japan	Rest of World
Korea	

Appendix F

Appendix F: Foreign Market Barriers Prevent U.S. Automobile Producers' Growth

International trade in automobiles is not reciprocal. While foreign exporters of automobiles and automobile parts continue to benefit from an ever-increasing share of the U.S. market, American-owned manufacturers have not had the same access to markets abroad. Indeed, U.S. exporters face a complex array of non-tariff barriers and industrial policies in foreign markets that discriminate against their products and promote indigenous automobile manufacturers. These discriminatory practices encourage the growth of domestic production in the home country, incentivize the export of excess production to the United States, and inhibit the growth of U.S. exports internationally. These practices have the ultimate goal of increasing sales revenue and, hence, R&D investments of domestic firms to the detriment of competitors. These policies have severely impeded the growth and global competitiveness of American-owned firms.

1. The European Union

The EU is the world's third largest automobile market, trailing only China and the United States. For automobiles and automobile parts, the United States' trade deficit with the EU in 2017 totaled $45 billion, with Germany accounting for the largest portion of the deficit ($22.0 billion).[1] In 2017, the United States exported 257,000 automobiles to the EU, totaling $8.6 billion, and it imported 1.2 million automobiles from the EU, totaling $43 billion.[2] Nearly half of these imports (492,000 units) were from Germany.[3] One principal reason for the relatively low number of U.S automobile exports to the EU is the region's high import tariff on passenger vehicles of 10 percent, compared to the U.S. import tariff of just 2.5 percent.[4] Additionally, most automobile parts face an average

---

[1] Department of Commerce, Census Bureau.

[2] *Id.*

[3] *Id.*

[4] World Trade Organization, Tariff Download Facility, http://tariffdata.wto.org.

applied tariff of 3.4 percent in the EU compared to 1.6 percent in the United States.[5]

Further, the export of automobiles and automobile parts to the EU requires compliance with safety, fuel economy, and emissions standards that are significantly different from those in the United States, in addition to vastly different regulatory processes.[6] For instance, with regard to safety standards in the United States, producers need only self-certify that they are meeting U.S. standards, while in Europe, producers must obtain "type approval" – a costly and unnecessary third party certification process – from the government before introducing a new model into the local market. Regarding emissions, moreover, although U.S. and EU rules address a similar range of pollutants, tighter EU fuel-economy requirements lead to significantly lower emissions than in the United States.[7] Many additional divergences in automobile safety and environmental regulations increase U.S. manufacturers' costs and thereby impede U.S. exports to the EU.[8]

Despite decades of efforts towards convergence by the United States Government and U.S. industry, it is still not possible to produce a vehicle that complies with both U.S. and EU regulations without substantial modifications to the vehicle.[9] Compliance costs for the U.S. industry are extremely large, and as much as $1,150 per vehicle (on average) traded across the Atlantic could be saved by harmonizing the EU's automotive safety standards with those of the United States.[10] In fact, harmonization of automobile regulations would increase automotive trade between the U.S. and EU by at least 20 percent, resulting in

---

[5] *Id.*

[6] Bill Canis and Richard Lattanzio, *U.S. and EU Automobile Standards: Issues for Transatlantic Trade Negotiations*, Library of Congress, Congressional Research Service, R43399, Feb. 18, 2014, https://www.hsdl.org/?view&did=751039 at 2.

[7] *Id.* at 19.

[8] *Id.* at 1.

[9] *Potential Cost Savings and Additional Benefits of Convergence of Safety Regulations between the United States and the European Union,* Center for Automotive Research, Jul. 2016, http://www.cargroup.org/wp-content/uploads/2017/02/Potential-Cost-Savings-and-Additional-Benefits-of-Convergence-of-Safety-Regulations-between-the-United-States-and-the-European-Union.pdf at 1.

[10] *Id.* at iv.

national income gains for both partners together of over $20 billion per year in the long run.[11] But EU lawmakers have persisted in their efforts to protect their domestic markets and restrict access for U.S. automobile manufacturers in an effort to augment domestic production while undermining U.S. production.

2. China

China has grown to become the world's largest and fastest growing automotive market.[12] As a result of China's aggressive push into the automobile parts sector, U.S. imports of Chinese automobile parts increased rapidly from $2.3 billion in 2002 to over seven times that amount in 2017.[13] Specifically in 2017, the United States experienced a $14 billion automobile parts trade deficit with China with the U.S. exporting $3.5 billion to China and importing $17.6 billion.[14]

With respect to automobile trade, the United States had a trade surplus of $8.1 billion with China in 2017, with $9.5 billion in exports compared to $1.5 billion in U.S. imports.[15] U.S. automobiles imported into China face a significant tariff of 15 percent.[16] To avoid these tariffs, U.S. automobile producers have invested heavily in manufacturing operations in China but, in doing so, they had been required by the Chinese Government to establish joint ventures with Chinese-based firms (with no more than 50 percent foreign ownership). They are also required to transfer intellectual property to facilitate China's aggressive strategy of acquiring advanced automotive technologies for its growing automobile sector.[17] These actions have been the subject of the United States 2017-2018 investigation

---

[11] Caroline Freund and Sarah Oliver, *Gains from Harmonizing US and EU Auto Regulations under the Transatlantic Trade and Investment Partnership,* Peterson Institute for International Economics, Number PB15-10, Jun. 2015, http://www.iie.com/publications/pb/pb15-10.pdf at 17.

[12] Wards Intelligence InfoBank.

[13] Department of Commerce, Census Bureau.

[14] *Id.*

[15] *Id.*

[16] Trefor Moss, *China to Cut Import Tariff on Autos to 15% From 25%*, Wall Street Journal, May 22, 2018, https://www.wsj.com/articles/china-to-cut-import-tariff-on-autos-to-15-from-25-1526980760.

[17] Office of the United States Trade Representative, *2018 Special 301 Report on Intellectual Property Rights*, Apr. 2018, https://ustr.gov/sites/default/files/files/Press/Reports/2018%20Special%20301.pdf at 44.

into the Chinese Government's forced technology transfer and intellectual property misappropriations under Section 301 of the Trade Act of 1974, as amended.[18]

Further, in 2015, the Chinese Government identified electrical vehicle technology, or NEV technology, in its "Made in China 2025" plan as a critical technology it seeks to acquire. In pursuit of this goal, the Government created a range of policies to assist Chinese automobile enterprises in developing NEV know-how and to localize manufacturing in China.[19] The Government issued rules mandating that, beginning in 2019, each automobile producer's sales in China must include a certain percentage of NEVs (based on a credit system) that would grow over time (10 percent in 2019 and 12 percent in 2020).[20] Companies that do not sell a sufficient number of NEVs to meet the requirements would be mandated to purchase credits from those companies that exceeded the minimum requirements, while companies that fail to purchase sufficient credits would be prohibited from selling conventional vehicles in China. Additionally, the "Made in China 2025" Key Area Technology Roadmap sets explicit market share targets that are to be filled by Chinese producers both domestically and globally in dozens of high-tech industries, including advanced automotive technologies. In particular, indigenous NEVs are required to achieve an 80 percent domestic market share with foreign sales required to shrink to 10 percent of total sales by 2025.[21]

The Chinese Government uses a vast array of additional industrial policies, monetary policies, and financial incentives to favor indigenous industry participants, reduce access for foreign manufacturers, and shift the trade balance to the detriment of U.S.-based automotive producers. With the benefit of policies designed to artificially boost sales and revenues for indigenous firms, Chinese

---

[18] Office of the United States Trade Representative, *Section 301 Fact Sheet*, https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2018/march/section-301-fact-sheet.

[19] Office of the United States Trade Representative, *2017 Report to Congress On China's WTO Compliance*, https://ustr.gov/sites/default/files/files/Press/Reports/China%202017%20WTO%20Report.pdf at 90.

[20] *China's New Energy Vehicle Mandate Policy (Final Rule)*, International Council on Clean Transportation, January 2018, https://www.theicct.org/sites/default/files/publications/China_NEV_mandate_PolicyUpdate%20_20180525.pdf at 5.

[21] *Unofficial USCBC Chart of Localization Targets by Sector Set in the MIIT Made in China 2025 Key Technology Roadmap*, The US-China Business Council, https://www.uschina.org/sites/default/files/2-2-16%20Sector%20and%20Localization%20Targets%20for%20Made%20in%20China%202025.pdf at 5.

manufacturers are poised to take advantage of their protected status to increase scale, maximize profits, and capture market share from competitors.

Some automobile manufactures who export (or planned to export) significant volumes of their U.S. production to China have recently shifted production that was planned for U.S. assembly plants to Chinese assembly plants.[22] Government incentives and the anticipation of continued strong growth in the Chinese market encouraged substantial investments in automobile production in China. For example, BMW recently announced shifts in production to China,[23] and Ford opened a $1 billion plant in northeast China just last year.[24] However, with the removal of a tax break on small-engine vehicles enacted in 2015, and the Chinese Government's drive to cut debt in the economy, Chinese demand for traditional automobiles has fallen. In 2018, annual passenger vehicles sales in China reversed for the first time since 1990, shrinking 4 percent compared to 2017 to 23.8 million vehicles.[25] Declining sales have eroded the global profits of many of the companies that have invested in China. However, given strict Chinese labor laws, cutting production and full-time production staff in China is difficult for foreign manufacturers, which are mostly partnered with state-owned companies. It is anticipated that production in China will now become a "profit drag rather than a profit driver," meanwhile "carmakers in the U.S. and Europe have announced lay-offs in response to slowing global demand."[26]

3. Japan

The United States has sustained a significant automobile and automobile parts trade deficit with Japan for over three decades. The deficit has grown from roughly $23 billion in 1985 to $53.8 billion in 2017. In 2017, U.S. automobile exports to Japan were $533 million while imports from Japan were $39.8 billion.[27]

---

[22] Steven Ewing, *BMW could shift more SUV production to China due to tariffs*, CNET, Nov. 7, 2018, https://www.cnet.com/roadshow/news/bmw-crossover-suv-production-china-tariffs/.

[23] *Id.*

[24] Tom Hancock, *Carmakers face cuts and gloom as China sales shift into reverse*, Financial Times, Jan. 17, 2019.

[25] *Id.*

[26] *Id.*

[27] Department of Commerce, Census Bureau.

At the same time, U.S. automobile parts exports to Japan were $1.8 billion whereas imports from Japan totaled $16.3 billion.

Although Japan's tariffs on U.S. imports of automobiles have been 0 percent since 1978, Japan imposes a complicated system of non-tariff barriers that impede U.S. exporters' access to its automotive market and contributes to the United States' trade deficit with Japan. U.S. producers consistently point to currency manipulation as a major non-tariff barrier,[28] as the low Yen provides Japanese producers with an effective subsidy for exporting automobiles, and further reduces the ability of competing firms to export to the Japanese market.[29]

The Japanese Government also relies on a range of regulatory non-tariff barriers to block foreign automobile imports. These include unique standards and testing protocols, that impose costly and additional compliance requirements for U.S. producers.[30] U.S. automobile producers have also reported challenges in gaining adequate access to dealerships, service, and repair centers because of difficulties in being granted necessary zoning approvals by Japanese regulatory agencies.[31] These are just a few examples of the Japanese Government's efforts to close its market to competitors. Market participation in Japan has been so challenging that in January 2016, one major U.S. automobile producer announced that it would cease all operations in Japan.[32]

---

[28] *Submission of the American Automotive Policy Council in Response to the Office of the United States Trade Representative's Request for Comments on Negotiating Objectives with Respect to Japan's Participation in the Proposed Trans-Pacific Partnership Trade Agreement*, American Automotive Policy Council, Jun. 20, 2012, http://www.americanautocouncil.org/sites/aapc2016/files/tpp/AAPC%20Submission-USTR%20TPP%20Japan%20FINAL%20June%209%20SUBMITTED.pdf.

[29] Art Laffer, *Currency Manipulation and Its Impact On Free Trade,* Forbes, Jan. 20, 2015, https://www.forbes.com/sites/realspin/2015/01/20/currency-manipulation-and-its-impact-on-free-trade/#1166837241fb.

[30] United States Trade Representative, *2018 National Trade Estimate Report on Foreign Trade Barriers,* https://ustr.gov/sites/default/files/files/Press/Reports/2018%20National%20Trade%20Estimate%20Report.pdf at 274.

[31] *Id.*

[32] Alisa Priddle, *Ford Closing Down in Unprofitable Japan, Indonesia,* Detroit Free Press, Jan. 25, 2016, https://www.google.com/amp/s/amp.freep.com/amp/79297876.

For these reasons, automobile exports by all nations to Japan have been low, at just under seven percent of overall Japanese demand, making Japan the most closed automobile market among the Organization of Economic Cooperation and Development (OECD) countries.[33] Automobiles manufactured in the United States account for five percent of vehicles imported into Japan in 2017, for an overall market share of substantially less than one percent. Conversely, Japanese brands dominate the Japanese market, and in 2017 eight of the top ten best-selling car brands in Japan were Japanese, representing over 90 percent of domestic market share. (The best-selling foreign brand in Japan was a European luxury brand with a 2017 market share of 1.3 percent.)[34]

Obviously, the existence of a closed market in Japan means that Japanese automobile producers do not face significant competition as they are seeking to achieve scale. Consequently, the savings generated by guaranteed scale in Japan creates the revenues necessary to increase production for export and expand market share in the United States at the expense of U.S. firms.

4. South Korea

The United States' trade deficit with South Korea in automobiles and automobile parts trade is substantial at over $21.6 billion.[35] In 2017, U.S. automobile exports to South Korea were $1.5 billion compared to $15.7 billion in automobile imports from South Korea,[36] and U.S. automobile parts exports to South Korea in 2017 were $890 million while automobile parts imports from South Korea were $8.3 billion.[37] South Korea is the fifth largest source of U.S. automobile imports and the sixth largest source of automobile parts imports.[38]

---

[33] Wards Intelligence InfoBank.

[34] Wards Intelligence InfoBank; Department of Commerce, Census Bureau.

[35] Department of Commerce, Census Bureau.

[36] *Id.*

[37] *Id.*

[38] *Id.*

The U.S. - Korea Free Trade Agreement ("KORUS FTA") negotiations provided an opportunity to address both tariff and non-tariff barriers that had frustrated U.S. automobile companies for decades. Upon entry into force of the KORUS FTA, South Korea immediately reduced the tariff on passenger vehicles from eight percent to four percent, and the remaining four percent tariff on passenger vehicles was eliminated on January 1, 2016. South Korea also immediately eliminated its 10 percent tariff on U.S. trucks.[39] The KORUS FTA also sought to address non-tariff barriers by, among other provisions, allowing 25,000 automobiles per U.S. producer to be considered safety-compliant with Korean safety standards when they are imported to Korea.[40]

While implementation of the KORUS FTA automobile provisions led to some growth in U.S. automobile exports, the automotive trade deficit with Korea has continued to increase from almost $12 billion in 2006 to over $21.6 billion in 2017.[41] Since 2012, when the KORUS FTA came into force, to 2017 the automobile trade deficit with Korea has increased by $4.2 billion (imports from South Korea increased by $5.1 billion compared to a $949 million increase in U.S. automobile exports to South Korea).[42] During the same period, the automobile parts deficit increased by $157 million (imports from South Korea increased by $327 million while U.S. automobile parts exports to South Korea increased by $170 million).[43]

The KORUS FTA provisions did not address all market access barriers to U.S. exports, as a complicated regulatory environment and a number of non-tariff barriers continue to impede the United States' access to the South Korean automobile market.[44] For instance, even though the KORUS FTA allows for a

---

[39] U.S.-Korea Free Trade Agreement (Mar. 15, 2012).

[40] *Id.*

[41] Department of Commerce, Census Bureau.

[42] *Id.*

[43] *Id.*

[44] *2018 National Trade Estimate Report on Foreign Trade Barriers*, Office of the United States Trade Representative, https://ustr.gov/sites/default/files/files/Press/Reports/2018%20National%20Trade%20Estimate%20Report.pdf at 303-304.

limited number of U.S. safety compliant vehicles to be sold in South Korea, the South Korean Government has fuel efficiency regulations that are unique and restrictive for the types of products U.S. automobile manufacturers produce. In addition, the Government has also imposed a burdensome Real Driving Emission ("RDE") test, adding another layer of costs for foreign vehicles. There is also a "Right to Repair" regulation that goes well beyond U.S. and international practices by requiring automobile producers to provide training materials, access to diagnostic tools, and security codes to independent automobile repair shops. More recently, the South Korean Government imposed discriminatory regulations on New Electric Vehicles that made U.S. electric automobile producers ineligible for Government subsidies and limited flexibility for charging standards that harmed U.S. manufacturers' ability to compete in that market.

Due to the ongoing impediments to trade and the protected base market, South Korea's two largest automobile producers maintain 67 percent of the domestic market share.[45] As an export-driven economy, South Korean automobile companies rely heavily on international markets for sales and have a strong focus on the U.S. market. Today, import penetration remains very low in South Korea and, in 2017, imported automobiles accounted for only 14 percent of Korean sales, with imported European luxury brands accounting for a large majority of those sales.[46] According to 2017 data provided by the Korea Automobile Importers & Distributors Association, U.S. automobiles accounted for only 5.4 percent of total imports into South Korea, and less than one percent of total new automobile sales.[47] As with Japan, restricting imports of automobiles into Korea is hugely advantageous for its domestic automobile producers. With a protected home market, South Korean firms are able to achieve the scale needed for profitability and apply the revenue generated there towards R&D investments to maximize global competitiveness at the expense of international competitors.

---

[45] Wards Intelligence InfoBank.

[46] *Id.*

[47] Korea Automobile Importers and Distributors Association, (KAIDA), *New Registration*, *available at:* https://www kaida.co.kr/en/statistics/NewRegistList.do.

Appendix G

Appendix G: Recent Trade Negotiations with Canada and Mexico That Impact the Recommendation

This report states, in Section VIII, that the threatened impairment of national security caused by imports of automobiles and automobile parts may be addressed through the imposition of tariffs of up to 25 percent on automobiles and the specific automobile parts that are not subject to the USMCA Side Letter quotas.

The USMCA Side Letters provide, "if the United States imposes a measure pursuant to section 232 of the Trade Expansion Act of 1962, as amended, with respect to passenger vehicles classified under subheadings 8703.21 through 8703.90, light trucks classified under subheadings 8704.21 and 8704.31, or any auto parts within the scope of any such measure, the United States shall not adopt or maintain a measure imposing tariffs or import restrictions on those goods of [redacted] for at least 60 days after the imposition of a measure. After the 60-day period, the United States shall exclude from the measure:

(1) 2,600,000 passenger vehicles imported from [redacted] on an annual basis;
(2) light trucks imported from Mexico; and
(3) such quantity of auto parts amounting to 108 billion U.S. dollars in declared customs value on an annual basis."

The USMCA was concluded on September 30, 2018, between the United States, Mexico, and Canada to modernize and replace the NAFTA.[1] It has not yet entered into force.

The United States sought and obtained certain USMCA provisions to create incentives for automobile and automobile parts manufacturers to locate R&D and production in the United States. These provisions are intended, when implemented, to address the threatened impairment of national security caused by

[1] *Joint Statement from United States Trade Representative Robert Lighthizer and Canadian Foreign Affairs Minister Chrystia Freeland*, Sep. 30, 2018, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/joint-statement-united-states.

imports of automobiles and automobile parts from Mexico and Canada, and are the basis for excluding USMCA countries from the recommended import measure.

For example, the USMCA includes rules of origin, including product-specific rules for automobiles and automobile parts, which the United States sought in order to create incentives for automobile and automobile parts manufacturers to locate R&D and production in the United States. The United States sought and obtained rules of origin that would require more North American content for automobiles and automobile parts than was the case under the NAFTA. For similar reasons, the United States sought and obtained, for the first time in any U.S. free trade agreement, a labor value content requirement, which will require that a significant portion of automobile content be made with high-wage labor.[2] Specifically, the USMCA requires that 40 percent of passenger vehicle content and 30 percent of light trucks content be produced in facilities that have a production wage rate of at least $16 per hour.[3] The labor value content will consist of a combination of high wage material or manufacturing expenditures, high wage technology and high wage assembly expenditures. For high wage assembly expenditures, which can make up to 5 percent of the labor value content, an automobile manufacturer must demonstrate that it has an engine assembly, transmission assembly, or an advanced battery assembly plant in the United States, Canada, or Mexico with an average production wage of at least US$16 per hour and with a production capacity of at least 100,000 originating engines or transmissions or 25,000 originating assembled advanced battery packs.[4] These provisions are intended to reduce the incentive to move manufacturing and R&D from the United States to countries with lower labor costs and encourage new automobile and automobile parts investments in the United States, and more specifically to reduce the existing incentive for companies to produce in Mexico (because of low-wages) instead of the United States. Further, the new rule encourages more R&D investment by automobile companies in the United States

---

[2] *Id*. at Article 4-B.7.

[3] *Id.*

[4] *Id.*

by allowing up to 10 percent of the labor value content required to come from R&D expenditures.[5]

The United States sought these USMCA provisions to increase automobile and automobile parts production in the United States, and to incentivize additional U.S. investment to transform supply chains in favor of more U.S. content. These outcomes are intended to reduce imports, increase domestic production, and generate revenue to enable automobile producers in the United States to invest in cutting-edge R&D technologies that are important for U.S. national security needs.

[5] *Id.*

Appendix H

Appendix H: Risks to the U.S. Automotive Industry and U.S. National Security if U.S. Sales of Automobiles Decline Further

The decline in the U.S. automobile and automobile parts manufacturing base described in this Report, if unaddressed, will continue for the foreseeable future as U.S. companies continue to cede market share to foreign competitors. Although data presented in this report demonstrate an increase in manufacturing and employment from 2009 to 2017, this upward trend is a result of the industry's partial recovery from the 2008-2009 recession rather than an overall improvement in the industry's competitive position.

As noted above, while the U.S. automotive industry, comprised of American-owned and foreign-owned producers, represents 52 percent of the domestic market, American-owned automobile producers' (GM, Ford, and Tesla) U.S. production currently supplies only 22 percent of the domestic demand for automobiles, and that trend is declining. The resulting reduction in revenue means that U.S. producers will not have a competitive advantage in automotive technological innovation, which impacts the United States' military defense capabilities.

Further, should the United States witness another economic downturn of the same or greater magnitude as the recent recession, the U.S. automotive industry will find it difficult to survive. The 2008 - 2009 recession undermined consumer demand and reduced U.S. producers' profitability and sales, leading Chrysler and GM to seek bankruptcy protection.[1] U.S. producers were unable to maintain their overhead costs (labor costs, R&D, fixed costs, etc.) at the reduced prices needed to clear inventory. A similar scenario today or in the near future will permanently handicap the industry.

To illustrate, in 2017, 17.1 million units of passenger vehicles and light trucks were sold in the United States.[2] In 2001, prior to the recession, U.S. sales

---

[1] Ford used a $10 billion line credit it had secured before the economic crisis in order to continue operating without U.S. Government loans.

[2] Wards Intelligence InfoBank.

were approximately the same.[3] But during the most severe year of the recession, in 2009, U.S. automobile sales dropped by 30 percent to 10.4 million units.[4] That same year, the average U.S. price of an automobile dropped by approximately one percent.[5] Today, the same 30 percent decline in sales volume and one percent decline in prices would have a devastating effect on the industry. [redacted].[6] A recession of this magnitude lasting more than a year could [redacted] the inadequate returns on investment needed for continued growth, technological advancements, and capacity maintenance will ultimately compel those producers to exit the U.S. market. GM has recently acknowledged that another economic downturn will significantly cripple its operations.[7] Even a recession causing sales to decline [redacted].[8] The absence of a viable American-owned automotive industry will significantly weaken the United States' ability to respond to national security needs in time of a national emergency. Accordingly, the U.S. Government must take the necessary steps to ensure the long-term health and viability of its automotive industry.

---

[3] *Id.*

[4] *Id.*

[5] *Id.*

[6] U.S. Producers' Survey Responses, Question 3.

[7] On November 26, 2018, General Motors announced it will close five factories and lay off nearly 15,000 workers. Mike Colias, *GM's Plan to Cut Jobs and Plants Draws Fire From Trump, Others,* The Wall Street Journal, November 26, 2018, https://www.wsj.com/articles/gm-says-it-will-cut-15-of-salaried-workforce-in-north-america-1543246232?mod=searchresults&page=1&pos=3&mod=article_inline; Morath, "GM Closings a Fresh Sign of Worry for Economy," *supra*. General Motors acknowledged that it executed this downsizing to avoid being in a difficult position whenever the next economic downturn occurs. Industry analysts agree that GM needed to restructure in order to weather the next downturn.

[8] U.S. Producers' Survey Responses, Question 10a, Department of Commerce calculations.