



June 29, 2018

Ms. Sahra Park-Su
Chief of Staff
Department of Commerce

Re: Docket Number DOC 2018-0002; Section 232 National Security Investigation of Imports of Automobiles, including Cars, SUVs, Vans and Light Trucks, and Automotive Parts -- Public Comments from the American Chemistry Council

Dear Ms. Park-Su:

The American Chemistry Council (ACC) welcomes the opportunity to provide public comments in regards to this investigation. Automotive value chain companies – including vehicle and parts manufacturers and material suppliers in the United States and abroad – are significant consumers of U.S. made chemicals. One-fifth of an automobile by weight relates to the business of chemistry, including the plastics, coatings, and fluids necessary for manufacturing automobiles today in the United States. U.S.-made chemical products enhance the performance and safety of autos and make them lighter, fuel-efficient, durable, and environmentally friendly. These products support U.S. automotive manufacturing competitiveness. It is estimated that every job in the automotive plastics and polymer composites industry generates an additional job elsewhere in the U.S. economy, for a total of over 108,000 jobs, representing 11.7% of the light vehicle industry workforce. For these reasons, we are compelled to provide our perspectives in response to the Department of Commerce's request for comments.

Our comments will describe the relationship between the chemical and automotive industries in the United States, how chemistry benefits auto production, why foreign competition in the automotive sector benefits U.S.-chemical manufacturers, why tariffs on imported autos and auto parts would disadvantage U.S. chemical manufacturers, and how significant retaliation by U.S. trading partners would cause even further damage to the U.S. economy and business of chemistry in the United States.

ACC's Position – Imported Autos and Automotive Products Make the U.S. Economy More Secure

ACC remains firmly opposed to the Administration's use of Section 232 of the Trade Expansion Act of 1962 to restrict trade on the basis of national security. We strongly disagree with the Administration's view that imports of autos and auto parts pose a threat to the national security. We also still disagree with the Administration's view that imports of steel and aluminum into the United States pose a national security threat.



In fact, we take the opposite perspective. Competitively priced imports of autos and auto parts (as well as steel and aluminum) are good for the national and economic security of the United States, its manufacturers, businesses, and citizens. Removing barriers to trade in the United States and abroad maintains American manufacturing's leadership in the global economy and our national security. Our companies and workers are the most competitive in the world, when we have free and fair market access combined with access to necessary inputs and critical materials to sustain our global supply chains. We urge the Administration to focus its trade policy and negotiation efforts on opening up new markets to U.S.-made autos and auto parts and U.S.-made chemicals. Closing markets will only cause economic harm and net negative impacts on employment.

Importance of the Business of Chemistry to the U.S. Economy

These tariffs and the resulting retaliation – which will be on top of the existing steel and aluminum tariffs and retaliation against the U.S. chemical sector – will cause damaging direct and indirect effects on the U.S. chemicals industry, its \$194 billion of planned investments in job-creating chemical plants in the United States, and its increasing export competitiveness. Today, American chemical manufacturers produce 15 percent of the world's chemicals, and account for 14 percent of all U.S. exports, amounting to \$181 billion in 2017. The U.S. has a large and growing trade surplus in industrial chemicals of \$33 billion in 2017. Given the competitive advantage that has been created by the American shale gas revolution, that surplus in chemicals is estimated to grow to \$73 billion by 2022. Our strong view is that tariffs and resulting retaliation on imported autos and auto parts will threaten the promise of our industry and its contribution to the U.S. manufacturing renaissance. Tariffs will ultimately weaken our national security, not strengthen it.

The Business of Chemistry Benefits Automotive Production in North America

The United States is the second largest automotive market in the world, with many domestic and global vehicle and auto parts manufacturers choosing to do business here. The U.S. automotive market depends on efficient supply and value chains in Canada and Mexico for its success. And auto parts are a critical component of the aligned industries of heavy equipment manufacturing, another key customer industry for the chemical sector.

Total sales of light vehicles reached 17.5 million units in 2016, with 12 million of those units produced in the United States. Many of the parts comprising these units crossed U.S., Canadian, and Mexican borders numerous times throughout the value chain. In 2016, the gross output of motor vehicle and parts manufacturing in the United States was approximately \$716 billion. The \$353 billion North American light vehicle industry represents a large end-use customer market for the business of chemistry. The relationship between the light vehicle industry and the business of chemistry is particularly strong in basic and specialty chemicals, because every light vehicle produced in the United States and Canada contains \$3,013 of chemistry (chemical products and chemical processing).¹

¹ Included in the chemistry value, for example are antifreeze and other fluids, catalysts, plastic instrument panels and other components, rubber tires and hoses, upholstery fibers, coatings and adhesives. Virtually every component of a light vehicle, from the front bumper to the rear tail-lights features some chemistry.

U.S. chemical manufacturers are significant suppliers to the vehicle and parts manufacturers and play an outsized role in this production. For example, the value of automotive plastic and composite products produced in the United States was \$20.8 billion in 2016. Currently manufacturers in 45 U.S. states use over 5.7 billion pounds of plastics annually to create innovative vehicle parts and components. Automotive plastic products are produced at 1618 plants in these states, which employ over 61,000 people and feature a payroll of \$3.1 billion. With approximately 14.6 million light vehicles assembled in the U.S. and Canada in 2016, the automotive market represents the equivalent of some \$44 billion in chemistry. In 2016, this equated to \$3,013 of chemistry in every vehicle.

Producers of automotive plastics and polymer composites purchase plastic resins, additives, other materials, components and services. As a result, the contributions of plastics and polymer composites go well beyond their direct economic footprint. The automotive plastics and polymer composites industry fosters economic activity indirectly through supply-chain purchases and through the payrolls paid both by the industry itself and its suppliers. This, in turn, leads to induced economic output as well. As a result, it is estimated that every job in the automotive plastics and polymer composites industry generates an additional job elsewhere in the U.S. economy, for a total of over 108,000 jobs, representing 11.7% of the light vehicle industry workforce.

Additionally, the chemical industry is an innovative partner with the auto industry, designing new, market-leading components and materials to build the next generation of autos. From carbon fiber to promote lightweight materials to engine technology that improves performance, the chemical industry plays an outsized role in the research, development, and innovation that generates high value, high-skilled jobs in the U.S.

Foreign Competition in the Automotive Sector Benefits U.S. Chemical Manufacturers

U.S. chemical manufacturers not only supply the domestic and global vehicle and parts companies operating in the United States, but also supply producers of vehicles and parts around the world. Foreign competition in the automotive sector is beneficial to U.S. chemical manufacturers. It increases demand for our products, induces our companies to create additional supply and jobs, and leads to higher levels of research and development to meet the needs of an ever-evolving automotive industry. With demand for vehicles and parts increasing around the world, we have significant opportunities to export U.S.-made chemicals to a wide range of markets.

Tariffs on Imported Autos and Auto Parts Would Disadvantage U.S. Chemical Manufacturers and Weaken the U.S. Economy

An additional tariff of 25 percent (on top of the existing 2.5 percent tariff on autos and 25 percent tariff on light trucks) on imports and autos and auto parts will increase the costs of both domestic and foreign-made autos for U.S. businesses and consumers, leading to less automotive production at home, and therefore less domestic and foreign demand for U.S.-made chemicals. This tariff would weaken U.S. economic growth, job creation, and manufacturing. The U.S. economy in the long-run will become less resilient and competitive relative to the rest of the world.

A study by The Trade Partnership Worldwide² estimates that tariffs would result in the loss of three jobs for every job gained in the motor vehicle and parts sector – a net loss of 157,000 jobs. This study also estimates that U.S. Gross Domestic Product (GDP) would decline by \$18 billion and reduce overall U.S. exports by nearly 2 percent annually. Regarding price increases, this study estimates that the tariffs would add about \$6,400 to the price of an imported \$30,000 car. A study by the Peterson Institute for International Economics³ estimates that tariffs of 25 percent on imported autos and auto parts would result in the loss of 195,000 jobs, including in the autos and auto parts sector.

Expected Retaliation by U.S. Trading Partners

U.S. trading partners retaliated against the Section 232 steel and aluminum tariffs by targeting, in part, a subset of U.S.-made chemicals. For example, the EU targeted cosmetics and personal care products and Canada targeted herbicides, fungicides, and insecticides, as well as plastic materials. Given the much higher volumes of automotive trade, retaliation by U.S. trading partners will be swift and brutal. Retaliation by U.S. trading partners that target U.S.-made chemicals will eliminate important and growing global markets for the U.S. chemical industry. As the largest U.S. exporting industry, chemical manufacturers is a target for retaliatory tariffs. If implemented, the retaliatory tariffs will diminish our industry's market access. The reduction in U.S. chemical exports will further exacerbate the U.S. trade deficit with key countries.

To remain competitive, reduce costs, or maintain access to those markets, U.S. chemical manufacturers may decide to halt production in the United States, move production abroad, or cease operations in the United States entirely. It will take years – possibly a generation – to reclaim the market share lost through retaliation as domestic and other global suppliers meet the demands of chemical consuming industries around the world. More broadly, retaliation will lead to less economic growth and job loss. The Peterson Institute study also estimated that retaliation by U.S. trading partners with tariffs on the same products would lead to a 4 percent decrease in production and the loss of 624,000 U.S. jobs, including 5 percent of the work force in the U.S. auto and parts industries.

Less production of autos and parts in the U.S. will lead to less demand for U.S.-made chemicals. As we learned from how U.S. trading partners are retaliating against the U.S. steel and aluminum tariffs, we can anticipate that they will also target chemicals. Thus, retaliation will target both U.S.-made chemicals and one of the biggest U.S. industries consuming U.S.-made chemicals.

Conclusion

ACC urges the Administration to pursue a trade policy agenda that increases global trade and opens up new markets. We acknowledge that enforcing existing U.S. trade agreements is necessary part of this agenda. However, U.S. tariffs and quotas and retaliation by trading partners will not lead to increased trade, new market access, U.S. economic or job growth, or enhanced U.S. competitiveness and technological innovation in the auto and auto parts sectors. As we have

² <http://tradepartnership.com/reports/an-accident-waiting-to-happen-the-estimated-impacts-of-tariffs-on-motor-vehicles-and-parts/?mod=article> inline

³ <https://piie.com/blogs/trade-investment-policy-watch/trumps-proposed-auto-tariffs-would-throw-us-automakers-and>

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said in our past Section 301 and Section 232 public comments, we are seeking new trade agreements that open markets for U.S. chemical manufacturers and implore the Administration to reorient its trade policy in this direction. ACC looks forward to working with the Administration in opening new markets around the world.

Sincerely,



Ed Brzytwa
Director
Regulatory & Technical Affairs

Cc: Assistant Secretary Nizak Nikakhtar
Deputy Assistant Secretary Praveen Dixit
Andy Parris