

# Issue Brief

JULY 15, 2021  
BY BRYAN RILEY

## The Car-Tax Report the Trump Administration Was Embarrassed to Release (and How the Biden Administration and Congress Should Respond)

*(Updated July 16, 2021)*

The U.S. Department of Commerce recently released a [report](#) prepared by the Trump administration calling for exorbitant new taxes of up to 35 percent on imported sport utility vehicles (SUVs) and crossover utility vehicles (CUVs) and up to 25 percent on imported automobiles.<sup>1</sup> (The United States already imposes a 25 percent tax on imported pickup trucks.)

The report resulted from an investigation initiated under Section 232 of the Trade Expansion Act of 1962. The Trump administration was supposed to have released it last year but failed to do so, and it never imposed the recommended tariffs -- perhaps because the rationale for trade restrictions was incredibly weak. As Sen. Pat Toomey (R-PA) [suggested](#): “The justification for these tariffs was so entirely unfounded that even the authors were too embarrassed to let it see the light of day.”<sup>2</sup>

<sup>1</sup> U.S. Department of Commerce. (Report dated February 17, 2019; actual publication date July 6, 2021.) “The Effect of Imports of Automobiles and Automobile Parts on the National Security: An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1972, As Amended.”

<sup>2</sup> Sen. Pat Toomey (R-PA), “Toomey Statement on Release of Section 232 Report on Imported Autos.” July 6, 2021.

### Key Facts:



Americans produced 3.1 million more vehicles in 2019 than in 2010 as the inflation-adjusted value of U.S. car and truck production increased by 59 percent.



In 2019, the United States produced 10.9 million cars and trucks. Americans imported another 9.9 million vehicles, mostly from close U.S. allies.



Tariffs would have inflicted serious harm on U.S. auto workers and consumers by increasing the cost of parts used to produce vehicles in the United States and by increasing the price of cars and SUVs.

The Section 232 report concludes that the “displacement of domestic products by excessive imports’ – in particular the displacement of automobiles and certain automobile parts manufactured by American-owned firms – is causing a ‘weakening of our internal economy’ that ‘may impair the national security.’”

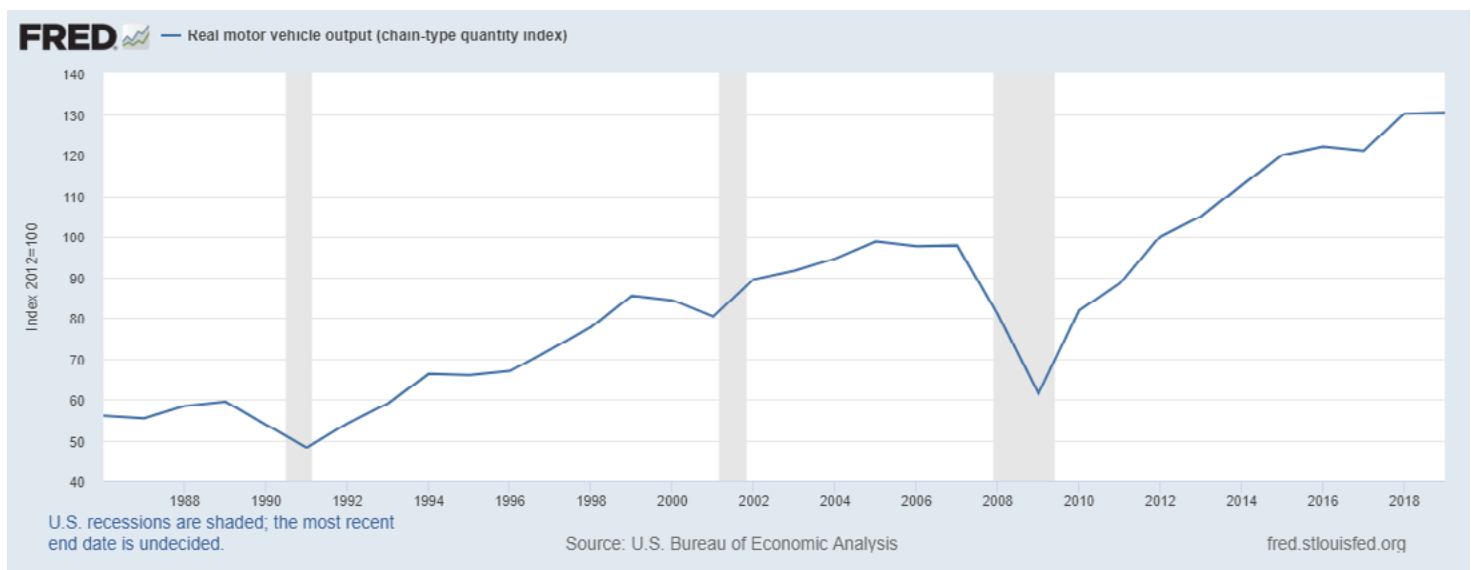
This conclusion is backwards. For example:

**Domestic production of motor vehicles is strong and growing.** According to the Section 232 report: “The strength of the U.S. automotive industry has weakened since 1985.... [P]roduction by domestic automobile producers declined from 11.4 million units in 1985 to 10.9 million units in 2017.... [T]he U.S. automobile market is experiencing a decline in demand and contracting due to excessive imports.”

There’s more to the story. Had the Section 232 report’s authors compared the number of cars produced in the United States in 2017 to production in 1980 or 1990 instead of 1995, they would have reported that the number of vehicles made in the United States was increasing.

More significantly, cars and trucks have improved dramatically since 1985, and as a result the value of domestically produced vehicles is much higher now than in 1985. Looking at the real value of U.S. motor vehicle production [reveals](#) a much different -- and more accurate -- story than the “decline” alleged by the White House.<sup>3</sup>

Figure 1:



More recently, Americans produced 3.1 million more [vehicles](#) in 2019 than in 2010 as the inflation-adjusted value of U.S. car and truck production [increased](#) by 59 percent.

These big increases partly reflect the country’s recovery from the Great Recession. Even so, the U.S. automobile industry was strong and growing before the COVID pandemic hit.

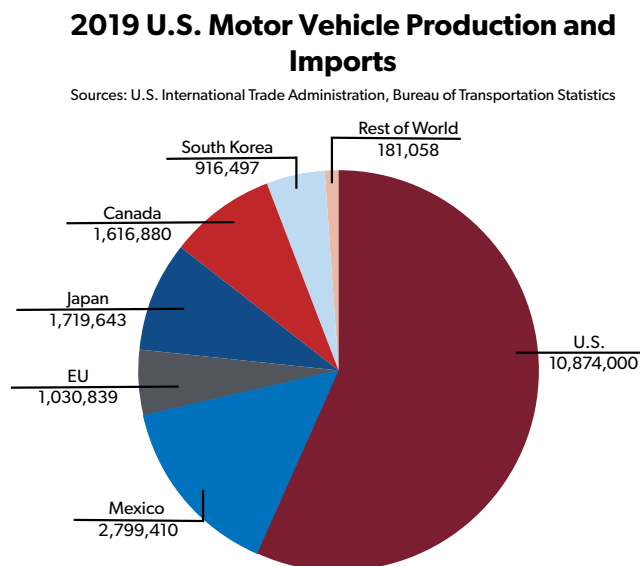
**Nearly all cars and trucks purchased by Americans are made in the USA or supplied by our close allies.** The Section 232 report alleges that imports threaten our national security. Unless the EU and Japan are national security threats, this claim is ludicrous.

In 2019, the United States produced 10.9 million cars and trucks. Americans imported another 9.9 million vehicles. Canada, Mexico, Japan, Korea, and the European Union (EU) supplied 93.5 percent of these imports

<sup>3</sup> U.S. Bureau of Economic Analysis, “Real motor vehicle output (chain-type quantity index) [A953RA3Q086SBEA].” Retrieved from FRED, Federal Reserve Bank of St. Louis, July 13, 2021.

and 88 percent of imported motor vehicle parts. (Note: Import figures are based on the harmonized tariff system codes [specified](#) in Appendix B of the Section 232 report.)

Figure 2:



**Imposing “national security” tariffs on our allies would have weakened U.S. national security.** The Trump administration proposed to exempt much production from [Canada](#) and [Mexico](#) from new tariffs. Japan, Korea, and the EU were not so lucky.<sup>4</sup>

These are the countries we should be attempting to work with to address American priorities with respect to China, preventing the proliferation of digital services taxes levied on U.S.-based companies, and other national priorities. Picking a trade fight with them makes it harder to achieve U.S. goals.

**Tariffs on imported parts would have harmed U.S. auto workers.** The Trump administration’s proposal to impose tariffs of up to 25 percent on engines and parts, transmissions and powertrain parts, and electrical components would have made it more costly to assemble vehicles in the United States, directly threatening the livelihoods of American auto workers.

As the Section 232 report points out: “In fact, every U.S. producer of passenger vehicles -- whether American-owned or foreign-owned -- imports a significant volume of automobile parts for its vehicle production operations in the United States.” The smart move would be to eliminate tariffs on those parts in order to encourage domestic production of cars and trucks, promote affordability, and create jobs for auto workers.

**Texas and Alabama do not threaten U.S. economic security.** According to the Section 232 report, “in a time of national emergency, foreign-owned suppliers operating in the United States may not be reliable sources of equipment.”

It is a slap in the face to workers in places like Texas (where Toyota Tundras are produced) and Alabama (home to Mercedes, Hyundai, and Honda factories) to suggest they can’t be relied on in the case of a national emergency.<sup>5</sup>

<sup>4</sup> Office of the U.S. Trade Representative. (November 30, 2018.) United States-Mexico-Canada Agreement (USMCA) Side Letters with Canada and Mexico.

<sup>5</sup> Hoopfer, Evan, “Toyota announces big changes to its Texas plant lineup.” Dallas Business Journal, January 17, 2020, and Alabama Department of Commerce, “Made in Alabama: Automotive.” Retrieved from <https://www.madeinalabama.com/industries/industry/automotive/> (Accessed July 13, 2021).

It's also backwards to suggest that foreign-owned manufacturers weaken U.S. security.

Foreign-owned companies have brought with them innovations ranging from [lean manufacturing](#) to [apprenticeship programs](#) to [cutting-edge technologies](#) that have strengthened the U.S. economy -- not weakened it.<sup>6</sup>

Foreign investment further enhances U.S. security by making it in our allies' self-interest to help us -- along with their companies located here -- in the event of a national emergency.

As Canada's Deputy Ambassador to the United States [observed](#): "America's enduring alliances strongly support U.S. national security."<sup>7</sup>

**Tariffs would have harmed U.S. car buyers.** The Section 232 report turns basic economics upside-down. It alleges: "Low Priced Foreign-owned Automobile Production and Imports Have Caused Significant Market Penetration in the United States and Have Suppressed U.S. Producers' Prices."

Making cars and trucks more affordable for hard-working American families is a benefit of trade, not a cost. International trade and investment provide U.S. consumers with competitive and high-quality vehicles and encourage domestically owned companies to innovate.

In the words of car enthusiast [Adam Carolla](#): "American car companies have never been better, and don't tell me you wouldn't be putting out Matadors and Gremlins 25 years later if it wasn't for the Camry and the Sentra."

National Taxpayers Union Foundation [estimated](#) that a 25 percent tariff could have increased the average cost of imported cars, trucks, and SUVs by \$4,205 to \$5,089, and boosted the price of domestic cars by \$1,262. The 35 percent tariff on SUVs and CUVs recommended in the Section 232 report would have been even more costly.<sup>8</sup>

**Why this matters.** Some people might argue that none of this matters since the Trump administration never imposed the tariffs recommended in the Section 232 report. Besides, Trump administration officials like Peter Navarro, Wilbur Ross, and Robert Lighthizer are no longer driving U.S. trade policy.

But the car-tax report matters because it reflects the same kind of shoddy reasoning that led the Trump administration to impose tariffs on steel, aluminum, and motor vehicle parts -- tariffs that the Biden administration continues to assess at the expense of U.S. auto manufacturing.

According to the American Automotive Policy Council, which represents Fiat Chrysler Automobiles (now Stellantis), Ford, and GM: "Inevitably, the imposition of across the board higher tariffs or other restrictions on imports of [steel](#) into the United States would only widen the existing price gap by increasing the price of U.S. steel and thus the cost of U.S.-built vehicles."<sup>9</sup> Additionally, "Across-the-board-tariff hikes or other trade restrictions on imports of [aluminum](#) would inevitably reduce the competitiveness of domestic aluminum-consuming industries, particularly the automotive industry."<sup>10</sup>

<sup>6</sup> Cusomano, Michael A., "Manufacturing Innovation: Lessons from the Japanese Auto Industry." MIT Sloan Management Review, Fall 1988; "How the Volkswagen Apprenticeship Program makes an impact with jobs." Volkswagen Newsroom, November 14, 2018; "Siemens USA Pioneers Sustainable and Equitable Policies." Global Business Alliance, March 23, 2021.

<sup>7</sup> U.S. Department of Commerce, "Section 232 National Security Investigation of Imports of Automobiles and Automotive Parts Hearing." July 19, 2018. (Statement of Kirsten Hillman, Deputy Ambassador to the United States.)

<sup>8</sup> U.S. Department of Commerce, "Section 232 National Security Investigation of Imports of Automobiles and Automotive Parts Hearing." July 19, 2018. (Statement of Bryan Riley, Director, NTU Foundation Free Trade Initiative.)

<sup>9</sup> U.S. Department of Commerce, "United States Investigation Under Section 232 of the Trade Expansion Act of 1962 To Determine the Effects on U.S. National Security of Imports of Steel." May 31, 2017. (Public comment, American Automotive Policy Council.)

<sup>10</sup> U.S. Department of Commerce, "United States Investigation Under Section 232 of the Trade Expansion Act of 1962 To Determine the Effects on U.S. National Security of Imports of Aluminum." June 23, 2017. (Public comment, American Automotive Policy Council.)

According to the Motor & Equipment Manufacturers Association regarding tariffs on Americans who import goods from China: “The proposed 25 percent tariffs on motor vehicle materials, subcomponents, and parts will cause [disproportionate harm](#) to U.S. interests by disrupting American manufacturing operations and increasing costs, both to U.S. producers and consumers.”<sup>11</sup>

Unfortunately for U.S. auto workers, the Biden administration has thus far refused to end most of the self-destructive tariffs it inherited from President Trump. If he were serious about actually pursuing a “[worker-centered](#) trade policy,” President Biden would have eliminated these taxes on steel, aluminum, and motor vehicle parts.<sup>12</sup>

Congress can improve things significantly by making any future tariff increases contingent on congressional approval. Regardless of which party occupies the White House in 2024 and beyond, no individual should have the authority to weaken our national security by unilaterally disrupting the operation of a major American industry like auto manufacturing.

### **About the Author**

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<sup>11</sup> Office of the U.S. Trade Representative, “Notice of Action and Request for Public Comment Concerning Proposed Section 301: China’s Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation.” July 23, 2018. (Public comment, Motor & Equipment Manufacturers Association re: Section 301 Annex C.)

<sup>12</sup> Office of the U.S. Trade Representative, “U.S. Trade Representative Katherine Tai Outlines Biden-Harris Administration’s Historic ‘Worker-Centered Trade Policy.’” June 10, 2021.



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