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April 22, 2024

Victor Ban
Special Counsel
Office of the United States Trade Representative
600 17th Street NW
Washington, DC 20506

Via Electronic Submission

RE: *Comments Promoting Supply Chain Resilience* (Docket Number USTR-2024-0002)

Dear Mr. Ban:

On behalf of Autos Drive America's members, we appreciate the opportunity to submit the following comments regarding the "*Promoting Supply Chain Resilience*" (Docket Number USTR-2024-0002). Autos Drive America represents 13 international automakers and suppliers operating 31 manufacturing facilities where nearly half of all American-made vehicles are produced annually. Autos Drive America's member companies employ over 156,000 Americans, have invested over $107 billion in the United States, support over 2.3 million jobs, and export 695,000 U.S.-built vehicles annually.

How can U.S. trade and investment policy, in conjunction with relevant domestic incentive measures, better support growth and investment in domestic manufacturing and services?

As the Administration develops and implements policies that support growth and investment in domestic manufacturing and services, it is essential that it bear in mind that open trade and investment policies will remain foundational for achieving these objectives. Open trade and investment policies create a competitive economic environment that promotes innovation and ensures that U.S. manufacturers can effectively compete globally based on both cost and quality.

Domestic incentive measures can also play an important role in reducing costs and promoting investment, but they will work at cross purposes with market closing trade and investment policies that raise costs and increase uncertainty. For example, cost-raising tariffs on inputs can make domestic manufacturing prohibitively expensive or even foreclose the possibility of domestic manufacturing if domestic supply chains for those inputs do not yet exist. In the auto sector, supply chains develop around assembly plants. But it may not be possible to set up those assembly plants if they have no access to imported parts while domestic supply chains develop. This dynamic is at work with investments automakers are making as the industry moves toward electrification. For example, supply chains for batteries are now being established domestically and in allied countries, but they are still in the nascent stages.

Similarly, given the global supply chain, imports can be necessary to build a market justifying domestic investment. The association's member companies are investing billions of dollars in U.S. EV and battery production facilities. But those investments are premised on market projections that will only be met if the market for electrified vehicles has developed sufficiently, including through efforts to build a customer base before domestic production facilities come online. And that will require importing vehicles. Misplaced efforts to "encourage" domestic vehicle manufacturing by raising tariffs on imported vehicles could thus make domestic manufacturing investments untenable.

In short, while trade restrictions may be necessary to achieve important objectives like combatting forced labor, any such measures should be targeted rather than part of a wholesale abandonment of open trade and investment policies. Any restrictions should be taken with an awareness of the costs they impose and should be designed to minimize those costs – for the sake of supporting domestic manufacturing and services.

What existing or new tools could help ensure that growth in domestic manufacturing and services does not undergo the same offshoring that we have experienced over the past few decades?

The best way to ensure that growth in U.S. manufacturing is not off-shored is to ensure that the United States maintains its position as an attractive manufacturing platform with an attractive investment climate. Part of creating and maintaining an attractive manufacturing platform includes manufacturers having access to a robust trading network that promotes and facilitates exports. Several of Autos Drive America's member companies exported tens-of-thousands of vehicles from the United States, prior to the imposition of trade policies that caused exports to decline.

Open trade and investment policies will be critical to achieving this objective, to ensure there is a competitive market for inputs that in turn ensures that U.S. finished goods can compete effectively both in the United States and globally. Likewise, an open U.S. investment climate will enable further investments throughout the supply chain to support a robust, competitive U.S. manufacturing sector.

Negotiating additional trade agreements will also play an important role in ensuring that the U.S. remains an attractive manufacturing platform by reducing barriers to U.S. exports, especially with countries who are allies to the United States.

How can U.S. trade and investment policy promote a virtuous cycle and "race to the top" through stronger coordination and alignment on labor and environmental protections within trusted networks among regional and like-minded trading partners and allies?

The United States has been effective in using comprehensive free trade agreements to raise the labor and environmental standards of our trading partners, with USMCA serving as a prime example. Comprehensive free trade agreements cover the full range of our trade relationships with our partners and provide strong leverage to pursue U.S. objectives in these and other areas. The United States should pursue such agreements in the future.

What are examples of trade and investment policy tools that potentially could be deployed in the following sectors to enhance supply chain resilience? In these sectors, what features of the current policy landscape are working well, or less well, to advance resilience?

Ensuring close trade relationships with U.S. allies and other reliable trading partners will continue to be critical for enhancing supply chain resilience. The United States will need secure, predictable trading relationships with these partners to ensure U.S. access to their products and resources and to facilitate investment in developing those resources.

Trade agreements that reduce tariffs and other barriers to trade with these partners will be an essential element of any strategy for building these relationships and facilitating the supply chain diversification companies have already been pursuing.

Likewise, concluding critical minerals agreements with trading partners will ensure access to diverse sources for these minerals and along with enhanced supply chain resilience. Facilitating investment in processing of these minerals in multiple locations will likewise enhance supply chain resilience.

Across sectors, how does access to capital equipment, manufacturing equipment, and technology support supply chain resilience for U.S. producers, and is there a role for trade and investment policy?

Reducing tariffs and other trade barriers, especially with allied countries, on capital equipment and manufacturing equipment can support supply chain resilience by reducing costs to establish alternative sources of supplies for essential manufacturing inputs. Likewise, ensuring strong intellectual property protection regimes through trade agreement commitments can support technology transfers that support efforts to establish alternative supply sources.

There is concern that preferential rules of origin in free trade agreements can operate as a "backdoor" benefiting goods and/or firms from countries that are not party to the agreements and are not bound by labor and environmental commitments. What actions could be taken to mitigate these risks and maximize production in the parties? What policies could support strong rules of origin and adherence to rules of origin?

Any policies with respect to rules of origin must start with an appreciation that traders choose to claim preferential tariff treatment under FTAs to reduce their costs. Traders are willing to meet strict preferential rules of origin to the extent that the costs of doing so are outweighed by the preferential tariff benefits they receive. It is also important to recognize that trade taking place outside of an FTA is subject to no regional content requirement at all. Thus, any trade within an FTA, by definition, offers fewer opportunities for non-party inputs to be included in the product.

USMCA's automotive rules of origin are the strictest such rules in any FTA. They have been effective in incentivizing sourcing within North America and ensuring that only North American goods benefit from USMCA tariff preferences. Maintaining a proper balance between the strictness of the rules and the economic feasibility of meeting them will be essential to ensuring that the rules can serve as an incentive to localizing production rather than an incentive to trade outside the preferential tariff regime.

In addition to "adherence to rules of origin," it is vitally important to "adhere to rules" of trade agreements, the foundation of global rules-based trading systems. The U.S. has yet to accept and implement the unanimous USMCA dispute panel decision on automotive rules of origin. U.S. acceptance would demonstrate the importance of adherence to trade rules.

What factors are driving supply chain and sourcing decisions, and how does trade and investment policy impact them? How do companies factor geopolitical risk into their global and domestic manufacturing and sourcing decisions? How do companies take into account traceability and transparency considerations in supply chain and sourcing decisions?

Supply chain and sourcing decisions are based on factors including cost, quality, and reliability. Trade and investment policy can reduce costs and increase the reliability of sourcing from a partner country.

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How can U.S. trade and investment policy support supply chains that are inclusive of small, disadvantaged businesses and underserved businesses, including minority-owned and women-owned businesses, veteran-owned businesses, service-disabled veteran owned small businesses, and HUBZone businesses, and promote trade opportunities in underserved communities?

Trade agreements that reduce the complexity and cost of exporting help all U.S. exporters, but particularly benefit small exporters who lack the experience and resources to navigate complex and non-transparent foreign customs and regulatory regimes. Additionally, opening the ability of businesses to source from countries that are friendly to the United State will help to avoid bottlenecks in supply chains while keeping options open for sourcing that will keep production costs down.

Autos Drive America appreciates the opportunity to provide input into USTR's Promoting Supply Chain Resilience request for comment. We look forward to engaging further on the topic.

Jennifer M Safavian

Jennifer M. Safavian
President and CEO
Autos Drive America

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