

TOYOTA

TOYOTA MOTOR NORTH AMERICA, INC.

The Honorable Wilbur Ross
Secretary of Commerce
U.S. Department of Commerce
1401 Constitution Ave., NW
Washington, DC 20230

ELECTRONIC DELIVERY

Re: Section 232 National Security Investigation of Motor Vehicles and Parts

Dear Secretary Ross,

We are Toyota in America. We are 37,000 direct employees (1,600 of whom are military veterans), with another 267,000 people employed at suppliers in the U.S., and an additional 100,000 Americans working at Toyota and Lexus dealerships. Nearly all of them are American citizens. On their behalf, we submit these comments.

On May 23, 2018 the Department of Commerce, at the direction of President Trump, launched a Section 232 National Security Investigation on Imports of Automobiles, including Cars, SUVs, Vans and Light Trucks, and Automotive Parts. We offer the following comments for consideration before a determination is made on this extraordinary and precedential investigation.

Toyota's American story is so remarkable that one might think it would be the stuff of a Hollywood script. Perhaps it is only fitting that our start in America began in Hollywood, California, where in 1957 the company set up shop in a former Rambler dealership.

Over the next 60 years, *just three generations*, Toyota has become the company equivalent of the American "rags to riches" story. From humble beginnings, Toyota has blossomed into a major U.S. employer and contributor to the manufacturing might of America, and become inextricably entwined in the cultural and economic fabric of the country.

I. TOYOTA IS COMMITTED TO PROMOTING U.S. MANUFACTURING AND CREATING GOOD-PAYING JOBS THAT BOLSTER AMERICA'S ECONOMIC WELFARE AND NATIONAL SECURITY

a. Toyota's U.S. Economic Footprint

Just how big is Toyota's impact on the U.S. economy?

Toyota has directly invested nearly \$25 billion in the U.S. to create a vast value chain that includes 10 (soon to be 11) manufacturing plants across the United States, and directly and indirectly employs 137,000 people. Collectively these Americans design, engineer, manufacture and sell world-class vehicles. Toyota and Lexus dealerships sell and service these vehicles through nearly 1,500 U.S. dealerships. Indeed, an estimated 35 million Toyota and Lexus vehicles are on American roads today.

According to a recent study by the Center for Automotive Research (CAR),¹ this economic activity funds another 108,400 jobs with companies that are direct suppliers to Toyota, and a further 225,800 jobs that are supported by Toyota's direct and indirect employees. This leads to a total employment impact of 470,000 U.S. jobs. This is tangible evidence of Toyota's commitment to procure parts and components locally. All told, Toyota is a catalyst for \$23.6 billion in net disposable income earned by some 470,100 people – every year.

Toyota's world-class factories dot the U.S. map. While Toyota, like every other U.S. automaker, also has manufacturing operations in Canada and Mexico, over the past 20 years, \$2 out of every \$3 Toyota has invested in North America has been spent on U.S. facilities.

In Georgetown, **Kentucky**, our plant is the largest contiguous plant in the world for Toyota. It is where we make the **Camry**, which has the distinction of being the best-selling car in America for 18 of the last 19 years, but is also one of the best American-made cars you can buy. This factory is also where we make the **Toyota Avalon** and the **Lexus ES**.

In **Indiana**, our Princeton plant makes the **Highlander**, **Sequoia** and **Sienna**, and employs 5,400 Hoosiers.

Our Blue Springs plant in **Mississippi**, one of the newer automotive plants in the U.S., makes the best-selling vehicle the world has ever known, the **Toyota Corolla**.

In the Lone Star State, more than 3,000 **Texans** are proud to make **Toyota Tundra** and **Tacoma** trucks at our San Antonio plant, which has the distinction of having 23 suppliers co-located on the site, employing an additional 4,000 Americans.

Beyond the manufacture and assembly of vehicles, Toyota has a design operation in **California**, an engine plant in **Alabama**, an engine and transmission plant in **West Virginia**, and parts manufacturing in **Arkansas, Missouri and Tennessee**.

We also recently announced, in collaboration with Mazda, a new plant in Alabama that will be the newest automotive plant in the country, with production starting in 2021. It will employ 4,000 people, and represents a joint investment by Toyota and Mazda of \$1.6 billion.

Toyota's production team members produced more than 1.2 million vehicles in 2017. This U.S. production accounts for most of the vehicles Toyota sells in America. Additionally, Toyota churns out some 1.8 million engines and approximately 330,000 automatic transmissions annually at its U.S. manufacturing facilities.

In recent years, Toyota's thriving U.S. manufacturing base has also become a global export hub. In 2017 alone, the company exported more than 140,000 U.S.-built vehicles to 31 countries.

The Toyota in America is much more than a story about manufacturing. In **Michigan**, the center of the U.S. automotive industry since its inception, we have our **U.S. R&D headquarters**. We take great pride that our innovative workforce has helped Toyota become the U.S. automotive leader in

¹ Center for Automotive Research, *Contribution of Toyota Motor North America to the Economies of Nineteen States and the United States in 2015*, (Dec. 2016) available at <http://www.cargroup.org/wp-content/uploads/2017/02/Contribution-of-Toyota-Motor-North-America-to-the-Economies-of-Nineteen-States-and-the-United-States-in-2015.pdf>.

patents awarded over the past six years. Indeed, Toyota has been awarded more patents than any other automaker – 14,215.

In the emerging world of autonomous vehicles and connected car technologies, Toyota has invested \$1 billion in the Toyota Research Institute (TRI), which has operations in **Massachusetts, Michigan and California.**

More recently, Toyota has opened a new North American headquarters in **Plano, Texas.** The new campus represents an investment of more than \$1 billion, and houses about 4,000 direct employees.

The company has also distinguished itself from many others in the automotive industry by remaining steadfast in its commitment to its people, refraining from layoffs even during times of economic downturn.

Toyota represents a remarkable story of growth and investment in just 60 years - befitting a company that got its U.S. start in Hollywood!

b. President Trump's Praise for Toyota's Investments in the U.S.

Toyota employees have been heartened by the many expressions of appreciation by President Trump for investments we have announced since he was elected. These investments reflect our confidence in the U.S. economy and in the power of the Administration's tax cuts.

On April 10, 2017 Toyota announced a record \$1.33 billion investment in its Kentucky plant. This investment was part of Toyota's announcement after the election to invest \$10 billion dollars in the U.S. over the next five years, on top of the nearly \$22 billion Toyota had invested in the U.S. over the past 60 years. Donald Trump became the first President in history to provide a quote for a Toyota press release:

"Toyota's decision to invest \$1.3 billion in their Kentucky plant is further evidence that manufacturers are now confident that the economic climate has greatly improved under my administration and echoes the recent National Association of Manufacturers' 2017 Outlook Survey showing that 93% of manufacturers are now optimistic, which is an increase of 37% from just a few months ago," said President Donald J. Trump. ²

On July 5, 2017, President Trump sent a congratulatory letter to Toyota on the grand opening of its new North American headquarters in Plano, Texas:

"I applaud Toyota North America, Inc. for its decision to invest \$1 billion in a new North American headquarters in Plano, Texas. Today's announcement follows Toyota's April announcement that it will invest \$1.3 billion in its car manufacturing plant in Kentucky. These investments are part of Toyota's commitment to invest \$10 billion in American manufacturing over the next five years.

My Administration is devoted to a new future of American automotive leadership. We want to be the car capital of the world once again, and we are taking steps to achieve that goal.

² Toyota, Toyota Announces Record \$1.33 Billion Investment in Kentucky Plant, (Apr. 10, 2017) available at <http://pressroom.toyota.com/releases/toyota+announces+record+investment+kentucky+plant.htm>.

We are working tirelessly to eliminate industry-killing regulations, to lower job-crushing taxes, and to ensure a level playing field for all American companies and workers. These policies will spur a revitalization of our economy. Bringing manufacturing back to America, after years of watching our jobs shipped off to faraway lands, is one of my top priorities as President.

I am proud of the work Toyota North America is doing and look forward to supporting the continued growth of its United States operations.”³

Continuing his praise of Toyota, on August 4, 2017 President Trump celebrated the announcement of the Toyota/Mazda joint venture on Twitter:

“Toyota & Mazda to build a new \$1.6B plant here in the U.S.A. and create 4K new American jobs. A great investment in American manufacturing!”⁴

The President sent two tweets on January 10, 2018 when he lauded the decision of Alabama as the location for the new Toyota/Mazda joint venture and Toyota’s U.S. investment:

“Good news: Toyota and Mazda announce giant new Huntsville, Alabama, plant which will produce over 300,000 cars and SUV’s a year and employ 4000 people. Companies are coming back to the U.S. in a very big way. Congratulations Alabama!”⁵

“Cutting taxes and simplifying regulations makes America the place to invest! Great news as Toyota and Mazda announce they are bringing 4,000 JOBS and investing \$1.6 BILLION in Alabama, helping to further grow our economy!”⁶

Finally, for the first time in history, the company was mentioned in a State of the Union speech, when President Trump praised the Toyota/Mazda joint venture during his 2018 address:

“Many car companies are now building and expanding plans in the United States, something we haven’t seen for decades. Chrysler is moving a major plant from Mexico to Michigan. Toyota and Mazda are opening-up a plant in Alabama, a big one. And we haven’t seen this in a long time. It’s all coming back.”⁷

Beyond President Trump, several of the nation’s governors have praised Toyota’s U.S. investments.

Alabama: Governor Kay Ivey: *“The partnership between Mazda and Toyota will expand innovative automotive manufacturing in Alabama,”* Governor Ivey said. *“Their decision to locate this new facility in Huntsville is a testament to the talented workforce in our state. We*

³ President Donald J. Trump, Letter to Toyota North America, Inc. (July 5, 2017) available at https://mma.prnewswire.com/media/530988/White_House_Statement.pdf.

⁴ Donald J. Trump (@realDonaldTrump), Twitter (Aug. 4, 2017, 3:02AM), <https://twitter.com/realdonaldtrump/status/893411790868160514?lang=en>

⁵ Donald J. Trump (@realDonaldTrump), Twitter (Jan. 10, 2018, 8:29PM), <https://twitter.com/realdonaldtrump/status/951309956720087041>

⁶ Donald J. Trump (@realDonaldTrump), Twitter (Jan 10, 2018, 3:37PM), <https://twitter.com/realdonaldtrump/status/951236634095308800>

⁷ Donald J. Trump, President Donald J. Trump’s State of the Union Address, (Jan. 30, 2018).

are proud that this partnership puts Alabama on the forefront of technology in this dynamic global industry."

Indiana: Governor Eric Holcomb: *"For more than 20 years, we've watched Toyota grow in Indiana—providing good jobs for Hoosiers, training future leaders, and giving back to the community. Today we celebrate the company's continued success, commitment to our state, and the 5 millionth vehicle produced by Hoosiers. We look forward to witnessing Toyota's next milestone here in Indiana."*

Kentucky: Governor Matt Bevin: *"Toyota's new environmentally-conscious, state-of-the-art PEMC building showcases their continued commitment to the commonwealth. They are a proven leader both in creating and retaining jobs for highly skilled workers. We are grateful to have Toyota in Kentucky and look forward to a bright future together."*

Michigan: Governor Rick Snyder: *"Toyota's long history of research and development in Michigan is impressive, as is their continuing commitment to this state and its people. Thanks to Toyota's collaboration with the American Center for Mobility (ACM), Michigan can continue to maintain its momentum as a global leader in the ever-expanding transition from being the automotive capital to being the mobility capital."*

Texas: Governor Gregory Abbott: *"Texas' unparalleled business environment makes us a fitting home for a global powerhouse like Toyota Motor Corporation. Toyota has seen firsthand the highly-skilled workforce in this state and has become such an impressive member of the Texas business community."*

Toyota believes the Administration's tax cuts, by putting more money in the pockets of American households, will raise demand for cars and trucks, and boost economic growth and jobs.

However, these important gains could be put at risk if Section 232 tariffs on imported parts sharply increase the cost of producing cars in the United States. Every auto manufacturer, including the Detroit-based companies, has a global supply chain. Some parts and components must be sourced from abroad, because of lower costs or limited U.S. production capacity. While some of Toyota's vehicles are among those with the highest U.S. and North American content, there is no vehicle in the United States, whether from Toyota, GM, Ford, FCA, Daimler, or Hyundai, that is sole-sourced from exclusively U.S. parts and components. Global supply chains are vital to America's competitiveness as a major global car and truck manufacturer.

II. TARIFFS WOULD UNDERMINE, NOT ADVANCE, U.S. NATIONAL SECURITY

Section 232(b) provides authority for the President to restrict imports if "an article is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security." While Section 232(d) directs the President to take into account other relevant factors, such as "the impact of foreign competition on the economic welfare of individual domestic industries; and any substantial unemployment, decrease in revenues of government, loss of skills or investment, or other serious effects resulting from the displacement of any domestic products," these factors must be linked to a finding that such weakening of our internal economy may impair the national security.

As a result, the Department's and the President's determinations must be based on a legal finding that the U.S. lacks sufficient domestic capacity to meet defense requirements. In other words, Subsection 232(d) treats U.S. economic welfare as part of U.S. national security, but a Section 232 determination ultimately still must be based on a finding that "such weakening of the internal economy may impair the national security," i.e. the ability of the United States to meet "national defense requirements" in a time of war or other international crisis. This interpretation is corroborated by the legislative history of Section 232. At the Senate Finance Committee's hearings on the Trade Agreements Extension Act of 1955,⁸ Senator Humphrey (D-MN) explained that the intent behind the national security clause was to protect the country from imports that threatened the domestic "mobilization base" in the "event of war."⁹ In amending Section 232 in the Omnibus Trade and Competitiveness Act of 1988, the Senate Finance Committee explained that an amendment requiring a larger Defense Department role in Section 232 investigations, was to "ensure that the Cabinet department with the greatest responsibility and expertise over national security matters has a role in recommending whether the President take action."¹⁰ The amendment required the Secretary of Defense to conduct a separate defense needs assessment and submit a report to the Secretary of Commerce within three months of initiation of a Section 232 investigation and for Commerce to include Defense's assessment in its report to the President. Senator Roth (R-Del.), who co-sponsored the amendment, emphasized the intent was to "secure an industrial base that can support our security needs."¹¹ Senator Byrd (D-WV), the Democratic co-sponsor, concurred, adding that "the language of the statute makes it clear that the threat of injury to national security must be assessed after weighing many factors, many of them within the expertise of the Department of Defense"¹² and that the statutory reference to "economic well-being" is about "sustain[ing] our defense production base and support[ing] our military in time of crisis." Byrd noted that the Defense Department "more than any other agency . . . should know whether the production of a particular industry is vital to national security and whether that production is being impaired by imports."¹³

While U.S. commercial motor vehicle production, including Toyota and other automakers, is important to U.S. economic welfare and employment, the U.S. industry does not produce vehicles for the U.S. military or other defense purposes. The procurement of military vehicles, e.g. the Mine-Resistant Ambush Protected (MRAPs), is limited to a small group of defense contractors producing highly specialized vehicles for military purposes at a cost that would be far beyond the means of the average middle-class U.S. household. Because of the highly specialized requirements for military purposes, e.g. transportation of troops and equipment, protection from mines and improvised explosive devices (IEDs), ability to traverse extremely rough, off-road terrain, the parts for such vehicles are also highly specialized and are typically manufactured specifically for military and defense purposes. It would be highly impractical to take parts for commercial vehicles designed to

⁸ Section 2 of the Trade Agreements Act of 1954, which was amended by Section 8 of the Trade Agreements Extension Act of 1958, eventually became Section 232(b) of the Trade Expansion Act of 1962.

⁹ David D. Knoll, Section 232 of the Trade Expansion Act of 1962: Industrial Fasteners, Machine Tools, and Beyond, 10 Md. J. Int'l L. 55, 57 (1986).

¹⁰ S. Rep. No. 100-71 at 135-36 (1987).

¹¹ Threat of Certain Imports to National Security: Hearing on S. 1871 before the S. Comm. on Finance, 99th Cong. 2 (1986) (statement of Senator William H. Roth).

¹² Id. at 24 (statement of Senator Robert C. Byrd).

¹³ Impact of Imports and Foreign Investment on National Security: Hearing on S. 285, S. 470, S. 694 and Section 171 of H.R. 3 before the S. Comm. on Finance, 100th Cong. 27 (1987) (statement of Senator Robert C. Byrd).

safely transport the average U.S. family in comfort and meet strict U.S. environmental and safety requirements and incorporate them in a military vehicle.

While Section 232(b) directs the President and the Commerce Department to take the effect of imports on U.S. economic welfare into account, this does not supplant the basic statutory requirement that imports must threaten U.S. national security. This has traditionally been interpreted by Commerce and the Defense Department, which must be consulted by Commerce as part of a Section 232 investigation, as referring to U.S. reliance on suppliers from a country whose interests are not aligned with the United States or the risk of disruption of U.S. supply lines for defense production in times of war or armed conflict. The U.S. has ample capacity to produce specialized vehicles for military use. While the commercial vehicle industry does not produce such vehicles, even if it was part of U.S. defense production base, which it is not, the U.S. has ample capacity to produce such vehicles too.

Since the start of a U.S. economic recovery from the Great Recession in 2009, the U.S. auto industry has vastly expanded capacity, employment, investment, and profitability. The industry comprises both the traditional Detroit-based automakers, as well as international automakers (e.g. Toyota, FCA, Hyundai, Kia, Nissan, BMW, Daimler, Subaru, Honda, VW, and soon Mazda) with U.S. plants. These international automakers are headquartered in countries that are America's closest allies. It is difficult to foresee a situation in which any of them would engage in an armed conflict with the U.S. or cut off supplies of defense materials, and if they did, the United States would have an easy recourse of simply seizing their U.S. plants. Under NAFTA, Mexico and Canada have emerged as part of a highly integrated North American supply chain, and are also close U.S. allies. Canada has fought alongside the U.S. in multiple wars, including the recent conflict in Afghanistan and is defined as part of the "national technology and industrial base" under Section 501 of the Defense Production Act.¹⁴ Mexico is our closest ally in Latin America, and cooperates closely with the United States on issues such as border security and controlling illegal immigration and drug trafficking.

a. U.S. Automotive Production Capacity, Investment, and Jobs Are Growing, Not Shrinking.

In the unlikely event that the U.S. passenger vehicle industry would be called upon to supply our armed forces with passenger cars and trucks in some future armed conflict, the U.S. has ample domestic capacity and this capacity is growing – not shrinking – as shown by our new engineering facility, expanding R&D operations, upgrades to our largest U.S. based facility, and joint venture with Mazda to build a major new U.S. plant in Alabama.

Unlike, for example, the recent steel 232 investigation, the U.S. auto industry is not plagued by decreasing and unused capacity, a history of foreign dumping, or financial losses. Instead, since the last U.S. recession in 2008-2009, the U.S. industry has experienced nearly a decade of dramatic sales growth, increased profitability, growing employment, and increased capacity.

¹⁴ 10 U.S.C. Chapter 148 - *National Defense Technology and Industrial Base, Defense Reinvestment, and Defense Conversion*, § 2500 (the "national technology and industrial base means the persons and organizations that are engaged in research, development, production, integration, services, or information technology activities conducted within the United States, the United Kingdom of Great Britain and Northern Ireland, Australia, and Canada"). Available at: <http://uscode.house.gov/view.xhtml?path=/prelim@title10/subtitleA/part4/chapter148&edition=prelim>

The U.S. is one of the world's biggest exporters and many U.S. industries, including autos, are global leaders and have successfully established a major presence in markets abroad. Exports are critical to future growth, since roughly 75% of the world's purchasing power and over 95% of world consumers are located outside America's borders. In 2017, U.S. exports totaled \$2.3 trillion in exports and \$2.9 trillion in imports of both goods and services. Automobiles contributed 10% percent of U.S. exports (\$158 billion), including auto parts, engines and car tires (\$86 billion) and passenger cars (\$53 billion).

The Section 232 investigation is focused on whether importation of automobiles and automotive parts is a threat to U.S. national security. As a benchmark, 56% of U.S. vehicles sold in the U.S. are made here.¹⁵ As with all statistics, the relevant question is: "Compared to What?" The percentage for Machinery (54%)¹⁶, Chemicals (53%)¹⁷ and Appliances (53%).¹⁸ It could certainly be argued that these are products fundamental to the U.S. economy. Should these industries also be investigated as a "national security threat" on economic grounds?

Meanwhile, only 1% of televisions and bicycles are made in the U.S., and less than 10% of toys.¹⁹ Of course, TVs, bikes and toys may not be a national security threat, but what about shoes, boots and apparel? Only 3% of apparel and 2% of shoes sold in the U.S. are made in the U.S.²⁰ While there are procurement laws pertaining to the procurement of military apparel, a recent report from the Government Accounting Office (GAO) found that only 42% of uniforms ordered by the Department of Homeland Security (DHS) came from the U.S.²¹

Of course, warfare in the 21st century is an increasingly technological battle. But only 23% of computers and electronic products sold in the U.S. are made in the U.S.²² More specifically, 75% of U.S. smartphones are imported from China, and only 5% of personal computers sold here are made here.²³

Closing the U.S. market to imported autos would open the door for other countries to use "economic security" arguments disguised as "national security" arguments to impose tariffs on U.S. products to protect their domestic companies against a host of U.S. manufactured exports and farm products. The bottom of this slippery slope is a giant step back in time, with countries ignoring established

¹⁵ <https://www.detroitnews.com/story/news/local/michigan/2018/05/16/revenue-conference/34977871/>

¹⁶ http://www.esa.doc.gov/sites/default/files/machineryindustryprofile_0.pdf

¹⁷ <http://www.esa.gov/sites/default/files/chemical-manufacturing-industry-profile.pdf>

¹⁸ http://image-src.bcg.com/Images/BCG_US_Manufacturing_Nears_the_Tipping_Point_Mar_2012_tcm9-106751.pdf

¹⁹ <http://www.politifact.com/virginia/statements/2016/mar/14/donald-trump/donald-trump-says-us-doesnt-make-tvs-anymore/>; <https://www.statista.com/topics/1448/bicycle-industry-in-the-us/>; <https://www.northjersey.com/story/money/2017/02/24/made-in-america-gaining-popularity-toy-industry/98261018/>

²⁰ <https://www.accessoriesmagazine.com/aafa-releases-2014-apparel-shoe-statistics/>

²¹ <https://www.gao.gov/assets/690/688512.pdf>

²² <http://www.esa.doc.gov/sites/default/files/made-in-america-computer-and-electronic-products.pdf>

²³ <https://www.counterpointresearch.com/us-tariff-expansions-will-affect-us-smartphone-market/>; http://research.upjohn.org/cgi/viewcontent.cgi?article=1226&context=up_workingpapers

trade principles, raising barriers, and escalating trade tensions at the expense of American exports, manufacturing, and jobs.

b. Tariffs on Autos Would Undermine U.S. Security by Targeting Some of Our Closest Security Allies and Depressing the U.S. Auto Industry

Toyota shares the Administration’s goals of increasing U.S. jobs, growing the economy and strengthening national security. But we believe that a potential 25 percent tariff on imported vehicles and auto parts will, in fact, have the opposite effect. As Toyota’s team members across America can attest, free and fair trade is the best way to create sustained growth for the auto industry and its workers. It also provides more choices and greater value for American consumers. Tariffs on imported motor vehicles would fall almost exclusively on longstanding U.S. security allies in Europe and Asia. Traditionally, Commerce has looked to see if imports come from “unreliable” or “unsafe” sources and that should be the standard here.²⁴ That standard is simply not met here, as imports of vehicles and parts come from countries like Canada, which has been defined by law as part of the U.S. defense industrial base²⁵ and which has been closely integrated with U.S. automotive production since the U.S.-Canada Auto Pact entered into force in 1965; Mexico is the leading U.S. ally in Latin America; Japan and South Korea are America’s leading security alliances in the Asia-Pacific; and countries like the U.K. and Germany are part of the NATO alliance, which has played a vital role in preserving peace and security in Europe. Engaging in trade wars with our allies would diminish, not enhance, U.S. national security, jobs, and prosperity, and undermine the rules-based global trading system, which has led to a period of unparalleled peace and prosperity in Europe and Asia for the last half-century

Ours is a global industry. In 2017 alone, 12 domestic and international automakers manufactured nearly 12 million new vehicles in the U.S. Meanwhile, this same industry imported \$183.8 billion of passenger cars, SUVs and minivans and \$26.4 billion in trucks — the clear majority from America’s national security allies, including Canada, the European Union, Japan, Korea and Mexico. This is true for Toyota. But it is also true for the Detroit-based automakers. According to Ward’s Auto, 51 percent of the vehicles FCA sold in the U.S. in 2017 were imported. GM imported 37 percent and Ford Imported 21 percent.

As such, a potential tariff on automobiles and parts would have a negative impact on all manufacturers, increasing the cost of imported vehicles as well as domestically-produced vehicles that rely on imported parts. To give a Toyota example, the Camry is built in Kentucky, and has been the best-selling car in America for 19 of the last 20 years and one of the best American-made cars you can buy. But even the Camry has about 30% non-U.S. content. This means the Camry would see a cost increase of \$1,800 (based on a price of \$23,645).

Ultimately, this cost will likely be passed along to consumers in the form of higher prices (roughly a \$6,400 increase on a \$30,000 imported vehicle according to a recent analysis conducted by Trade Partnership Worldwide).²⁶ Higher prices would invariably lead to reduced sales. Jeff Schuster, President, Americas Operation and Global Vehicle Forecasting at LMC Automotive, estimates that

²⁴ The Effect of Imports of Iron Ore and Semi-Finished Steel on the National Security: An Investigation Conducted under Section 232 of the Trade Expansion Act of 1962, As Amended, October 2001, at 6-7.

²⁵ 10 U.S.C. Chapter 148 - *National Defense Technology and Industrial Base, Defense Reinvestment, and Defense Conversion*, § 2500.

²⁶ http://tradepartnership.com/wp-content/uploads/2018/05/232_Auto_PolicyPaperFINAL.pdf

if companies pass the full 25 percent cost on to consumers, U.S. auto sales could decline by some 2 million units, or more than 10 percent of annual sales.²⁷ Reduced sales would invariably lead to cuts in production which, in turn, will lead to the loss of American jobs — in the manufacturing sector, but also in sales, distribution, maintenance and finance.

This downward pressure on the U.S. economy would come at a particularly inopportune time. The auto industry is highly cyclical and, after seven years of record growth, it is entering a period of flat or declining sales. Rising manufacturing costs and vehicle prices due to tariffs would contribute to this slowdown, further threatening to undermine the country's economy and ultimately, its national security.

These headwinds would also likely impede U.S. vehicle exports abroad precisely when such business could help offset slowing domestic sales. In 2017, U.S.-based manufacturers exported nearly 2 million vehicles — double the total since NAFTA became law in 1993. At the same time, the value of these exports has quadrupled, from \$14.3 billion to \$57 billion.

Longer term, this dynamic could have a chilling effect on future economic investment. Auto manufacturing is highly capital intensive. It typically requires production lead times of 5-10 years. Certainty and durability are essential to this process. The imposition of the proposed U.S. tariffs, likely followed by retaliatory measures by America's trading partners, would create a highly unsettled and unpredictable business climate.

Meanwhile, the proposed tariffs would blunt the momentum generated by the Administration's historic tax cuts and regulatory reform efforts to encourage businesses to invest and grow in America. Tariffs are taxes. An analysis by the Tax Foundation found that the tariffs would amount to a \$73 billion tax increase.

"If imposed, these automobile tariffs would fall more on lower and middle-income taxpayers, reducing the increase in income these households would see because of the Tax Cuts and Jobs Act, and making the distribution of the tax burden less progressive," according to the Tax Foundation.

The automobile industry has bounced back from the recession and is healthy. Imposing a 25% tariff on vehicles and parts risks eroding the benefits of the tax cut and the health of the industry, as prices rise, sales slow and jobs are lost.

c. Tariffs Would Undermine U.S. Automotive Leadership and Innovation

Toyota has made significant U.S.-based research and development investments, particularly in the areas of connected vehicle systems, autonomous vehicles, and other cutting-edge technologies. The U.S. is a global leader in automotive production and technology because our market is dynamic, open, and highly competitive. This is particularly important as cutting-edge automotive innovation is becoming increasingly shaped by areas of American strength, such as software and semiconductor technology, and artificial intelligence. Recognizing this, Toyota has invested heavily in U.S. research and development.

In 2015, Toyota formed the Toyota Research Institute ("TRI") in the U.S. with a \$1 billion investment. TRI, located in Los Altos, California; Ann Arbor, Michigan; and Cambridge, Massachusetts employs

²⁷ <https://www.bloomberg.com/news/articles/2018-06-12/trump-tariffs-may-cost-carmakers-at-least-1-million-annual-sales>

approximately 300 people in its efforts to develop automated vehicles and non-automotive robotics. As part of its work, TRI has invested millions of dollars in research collaborations with U.S. universities, including MIT, Stanford, and the University of Michigan. They are focused on advancing the state of science in the areas of artificial intelligence, robotics, and autonomous driving, while also contributing to the research community in the U.S. and enabling young researchers in the U.S. to realize their dreams of completing a PhD. TRI has also joined Toyota Motor North America in supporting the Michigan-based American Center for Mobility, a testing and product development facility for future mobility, with a \$5 million contribution. As Michigan Governor Rick Snyder said, Toyota's investment in this collaboration is helping Michigan "continue to maintain its momentum as a global leader in the ever-expanding transition from being the automotive capital to being the mobility capital."²⁸

Toyota AI Ventures, the venture capital subsidiary of TRI, was formed in 2017 in California and was provided \$100 million to invest in entrepreneurs who share TRI's commitment to improving the quality of life through artificial intelligence, with a focus on autonomous mobility, robotics, data, and cloud. Toyota AI Ventures' mission is to help early-stage startups bring innovations and business models to market quickly by offering funding, validation mentorship, and incubation facilities. To date, all but two of the companies that Toyota AI Ventures has invested in are in the United States.

In 2016, Toyota Connected was formed in the United States as a collaboration with Microsoft to lead Toyota's global efforts around vehicle data science, machine learning and contextual data services. Toyota Connected currently employs approximately 200 people in Texas. These recent connected and automated vehicle investments build on research and development activities that have been underway for more than 40 years in the U.S. by Toyota Motor North America Research and Development (TMNA R&D). TMNA R&D – which is focused on product development, advance research, and evaluation and crashworthiness - has become Toyota's largest R & D center outside of Japan, employing more than 1,600 people in Michigan, Arizona, and California. In 2015, Toyota invested \$154 million to expand vehicle development and advance safety research operations in the U.S.

The Collaborative Safety Research Center was started in 2011 to serve as a catalyst for the advancement of transportation safety research. CSRC partners with leading universities, hospitals, and other research institutions in the U.S. to support development of new and advanced safety research, including emerging automated and connected vehicle systems. CSRC also publishes its research so that it will be readily available to federal agencies, the rest of the auto industry and academia in the U.S. to help ensure that everyone can benefit from what it learns.

d. Section 232 Tariffs on Auto Parts Will Cost U.S. Jobs

Toyota is a major U.S. employer, directly and indirectly employing 137,000 people in manufacturing, supporting operations and dealerships in this country. As discussed above, the Center for Automotive Research (CAR) estimated that Toyota's presence helps support another 108,400 jobs with companies that serve as direct suppliers to Toyota. It's also important to note that Toyota's U.S. workforce has grown steadily since it decided to invest in this country over six decades ago. The company has remained steadfast in its commitment to its people, refraining from layoffs even during times of significant economic downturn.

²⁸<https://www.autonomousvehicletech.com/articles/168-toyota-to-collaborate-with-the-american-center-for-mobility>

Of course, Toyota's employment impact doesn't stop here. The 244,300 people who have these good-paying jobs earn incomes that they spend in their local communities. CAR calculates that this economic influx generates an additional 225,800 jobs. So, all told, Toyota's U.S. presence creates \$23.6 billion in net disposable income that is earned by some 470,100 people each year.

Tariffs on imported parts will disrupt U.S.-based production of motor vehicles, since it will deprive our U.S. manufacturing plants of key parts and components. Like most global automakers, including the Detroit-based companies, Toyota sources most key parts and components locally, e.g. engines and chassis, but also imports certain specialized parts and components. Some parts simply are not available in the U.S. In other cases, the global production of certain parts has been consolidated abroad, because it is not feasible or cost-competitive to produce every part for every model locally.

If supply chains are disrupted, it is likely to have a major impact on U.S. production and employment. If parts are not available from U.S. parts manufacturers, it would take 6 months to a year to certify a new supplier. Such parts must be tested for quality and safety purposes, which takes time. Given the vital importance of safety and quality issues for our customers, Toyota (and any other responsible manufacturer) will not compromise the integrity of its testing for safety and quality.

Additionally, if U.S. manufacturing plants are impacted for long periods because of shortages of key parts and components, or the tariffs make key parts and components prohibitively expensive, it will put certain finished vehicles out of reach for American consumers.

e. Tariffs, Quotas, or Other Import Restrictions Would Have a Devastating Impact on Dealerships Across the United States

Toyota is proud of its network of nearly 1,500 U.S. dealerships, which are second to none in their quality of customer service. Like every automaker, we have invested heavily in building up a strong nation-wide dealership network and work closely with our dealers to ensure that customers have a world-class sales and service experience. As a result, every U.S. city has a half-dozen auto dealerships or more, selling various makes and models, and performing service and repairs. These dealerships are major employers, each with an average workforce of around 69 people.²⁹ Like every other major automaker, Toyota imports certain models. Dealerships operate on narrow profit margins. If a dealership loses sales of an important model, because the cost becomes prohibitive with a 25% tariff, it will have a devastating impact. These effects will be felt across the United States, in Congressional districts, and large and medium-sized population centers.

III. OTHER CONTRIBUTIONS

While Toyota's impact on the U.S. is primarily economic, its presence and influence is felt on many other fronts.

Take, for instance, its leadership in promoting sustainable business practices. The company that helped hybrid technology become mainstream through its iconic Prius hatchback is also leading the way in the design and operation of its U.S. facilities. Eleven of Toyota's corporate facilities in this country have achieved the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) certification, including seven at the gold level. Meanwhile, 51 U.S. Toyota and Lexus dealerships have also earned LEED certification, more than any other automaker.

²⁹ <https://www.nada.org/2017NADAdata/>

Another example is the Toyota Production System Support Center,³⁰ which for the past 25 years has shared the company's world-renowned production philosophies and methods with other manufacturers as well as government entities, non-profits involved in disaster recovery and hunger relief, healthcare organizations, retail operations and more. As a result, a free eye clinic in Los Angeles³¹ now serves more patients, children's hospitals across the country³² have minimized infections and food pantries in Dallas³³ are feeding more in need — to name just a few who have benefited from this pro bono work.

Toyota believes its strength is in its people, and that a more diverse and inclusive workplace drives innovation. This commitment is evidenced by Toyota's recognition from organizations like DiversityInc, Billion Dollar Roundtable and Black Enterprise. Toyota invests in and creates greater opportunities for the diversity of its customers, business partners and community organizations, knowing that furthering their success is key to Toyota.³⁴

Toyota has been participating in motorsports in the U.S. since 1979, and in the NASCAR National Series since 2004 where we have become a welcomed and respected competitor in the all-American motorsports circuit. Toyota is one of three OEMs participating in NASCAR, along with Chevrolet and Ford. TRD, U.S.A. (Toyota Racing Development) builds engines for the Monster Energy NASCAR Cup Series in its Costa Mesa, California headquarters, while offering engineering and technical support out of Salisbury, North Carolina.

Toyota partners with tracks throughout the country, with sponsored entitlement races in Richmond, Virginia, and Sonoma, California. Toyota works to directly engage with the communities of the tracks they sponsor.

Toyota is also a leader in the United States on workforce development initiatives. Through partnerships with about 50 community colleges and other educational institutions, Toyota helps young Americans learn cutting-edge skills needed to embark on careers in advanced manufacturing or automotive repair. Indeed, when also considering the national partnerships Toyota has with organizations such as Project Lead the Way and SkillsUSA and the work of the Toyota USA Foundation in support of workforce development, Toyota is making a significant impact on the entire U.S. education system in preparing young Americans for tomorrow's jobs.

Through the Advanced Manufacturing Technician (AMT) program, Toyota has created a direct pipeline for high-caliber advanced manufacturing talent into its organization, as well as about 300 other companies of all sizes and from various manufacturing sectors. The Toyota AMT model is now available at 22 community colleges in 9 states.

Established in 1986, Toyota's Technician Training & Education Network (T-TEN) has been the centerpiece of Toyota's effort to create a stronger pipeline of career-oriented people interested in automotive repair careers. Considered the benchmark program among automotive manufacturers, T-TEN has graduated over 23,000 individuals since its inception.

³⁰ <http://pressroom.toyota.com/releases/toyota+marks+25+years+knowledge+sharing+north+america+small+business+non+profits.htm>

³¹ <https://www.toyotadriveseat.com/community/eye-clinic-adopts-tps-principles.htm>

³² <https://www.toyotadriveseat.com/community/tssc-childrens-hospitals.htm>

³³ <https://www.toyotadriveseat.com/community/tssc-north-texas-food-bank.htm>

³⁴ <https://www.toyota.com/usa/pdfs/ToyotaCommitmentBrochure.pdf>

The Toyota Veterans Association (TVA) is an employee resource group with chapters at our operations across the country. It creates volunteer opportunities for our team members to advocate on behalf of our country's active duty, veterans and their families.

The "Toyota Mentoring Marines" program allows Toyota managers to conduct mock job interviews with Marines transitioning to the civilian job market. The organization also sponsors vehicle donations to wounded veterans like John Baca, winner of the Congressional Medal of Honor, who works to raise awareness and prevent soldier/veteran suicides.

Toyota continues to partner with the U.S. Chamber of Commerce Foundation on their "Hiring our Heroes" program, which helps transitioning service members, veterans and military spouses build resumes that translate the skills acquired while serving our country into language easily understood by employers. More than 500 Toyota dealers have pledged to hire veterans through Hiring Our Heroes, and Toyota actively recruits veterans at our offices and manufacturing plants.

In partnership with the Marine Corps Scholarship Foundation, Toyota has created hundreds of scholarships for children of Marines and Navy Corpsmen. Additionally, Toyota contributes to the U.S. Navy Memorial and its Lone Sailor Award recognition program.

Toyota's outreach efforts, from its corporate headquarters on the national level to its dealers at the grassroots level are too expansive to itemize here. But in purely financial terms, the company has donated more than \$700 million to American-based philanthropic organizations since 1996.³⁵

IV. CONCLUSION

Toyota appreciates the opportunity to provide comments on the ongoing Section 232 investigation of imported automobiles and automotive parts. We support the Administration's efforts to strengthen national security and increase economic growth. To that end, we strongly believe that Toyota plays an important role in promoting the country's economic expansion, particularly when it comes to broadening and strengthening its manufacturing base. Imposing a 25 percent tariff on imported vehicles and auto parts, however, would only threaten to undermine these efforts — to the detriment of Toyota but also to the entire U.S. economy.

Free and fair trade is the best way to create sustained growth for the auto industry, employment opportunities for American workers and provide more choice and greater value for American consumers. Erecting trade barriers, like import tariffs, will ultimately invite retaliation from other nations and undermine America's leadership, exports and competitiveness overseas. Toyota stands ready to work with the Administration to advance opportunities that remove such barriers, promote economic growth, and strengthen national security.

³⁵ <https://www.cargroup.org/publication/contribution-of-toyota-motor-north-america-to-the-economies-of-nineteen-states-and-the-united-states-in-2015/>

For the foregoing reasons, Toyota respectfully urges the Commerce Department to find that imports or motor vehicles and parts do not threaten U.S. national security, and on the contrary, tariffs would threaten U.S. manufacturing, jobs, exports, and economic prosperity.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "S. Ciccone". The signature is fluid and cursive, with a long horizontal stroke at the end.

Stephen Ciccone
Group Vice President
Government Affairs