

# Trump receives “national security” report on auto imports

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Even as trade talks between the US and China reach a crunch point in the next two days when top negotiators meet in Washington ahead of the expiration of a March 1 deadline, trade war is brewing on another front.

Late Sunday, the US Commerce Department handed President Trump its report on whether auto imports into the United States constitute a threat to “national security.” Trump, who has said he likes “punitive tariffs,” last year used the threat of imposing duties of up to 25 percent on cars and auto parts to secure an agreement from Japan and the Europe Union to enter into bilateral negotiations with the US on new trade agreements.

But with little progress being made in the discussions with the EU, due primarily to European opposition to US demands on agriculture, the administration could move towards carrying out its tariff threat.

Yesterday Trump again threatened to impose tariffs unless agreement was reached with the EU. “We’re trying to make a deal, they’re very tough to deal with,” he said. “If we don’t make a deal, we’ll do the tariffs.”

The investigation was initiated last May under Section 232 of the 1962 Trade Expansion Act, which gives the president the power to invoke tariffs on imports that endanger national security. It is believed that the report states that auto imports do constitute such a threat.

Trump has 90 days to consider the report, the contents of which have so far not been released, and to decide on action. Section 232 has already been invoked to impose tariffs on steel and aluminium in March last year and Trump refused to make an exemption for the EU “allies” in June.

The EU is clearly concerned that Trump may decide to go ahead with imposing auto tariffs. On Monday, European Commission spokesman Margaritis Schinas warned that the EU was ready to retaliate if the threat went ahead.

“Were this report to translate into actions detrimental to

European exports, the European Commission would react in a swift and adequate manner,” he said.

Schinas would not speculate on the contents of the report. But a spokesman for German Chancellor Angela Merkel stated: “From what we’ve heard, [it] does conclude that European car imports constitute a threat to [US] national security.”

Last weekend at the Munich Security Conference, at which she advanced her most forceful criticism yet of the foreign policies of the Trump administration, Merkel said she found it “shocking” that German cars were considered a threat to US national security. She pointed out that the largest plant of the carmaker BMW was not located at its base in Bavaria, Germany, but in Spartanburg, South Carolina.

“If we’re serious about the transatlantic partnership, it’s not easy for me as German Chancellor to read that the American Department of Commerce apparently considers German and European cars to be a threat to the national security of the United States,” she stated.

If the tariffs are imposed, Germany would be the country most heavily impacted. According to a report by the Ifo institute in Munich and cited by the *Financial Times*, German car exports to the US would be halved over the long term if the rate were 25 percent.

According to Gabriel Felbermayr, the Ifo’s centre head for foreign trade, a tariff of 25 percent would reduce total German car exports by 7.7 percent, or €18.4 billion, and the value added by the German car industry would fall by €7 billion, or 5 percent.

While it is not certain that Trump will go ahead at this point, there are members of his administration who may well push for action. Peter Navarro, Trump’s White House trade adviser, is one of them.

A leading hawk on economic relations with China, whose technological development he regards as an existential challenge to the US, Navarro has been no less

strident on Germany. He has denounced the euro as an undervalued deutschmark that gives Germany an enormous advantage in exports markets. He has condemned Germany's gas deal with Russia as a threat to European security.

The agreement struck between Trump and European Commission President Jean-Claude Juncker last July stipulated that the two sides would discuss joint action on the reduction of tariffs and trade barriers relating to industrial goods other than cars. They also agreed to seek changes in the working of the World Trade Organization. But from the beginning, there has been a conflict over the US insistence that agriculture had to be included, with the EU maintaining that the issue is off the table.

In his Monday press conference, Schinas said the US and the EU should refrain from taking any measures that went against both the letter and the spirit of the July agreement.

"President Juncker trusts President's Trump's word. The EU will stick to its word as long as the US does the same," he said.

A view in White House economic circles is that the agreement by the EU for talks was only ever a stalling tactic. They believe its objective is to tie the US up in lengthy negotiations, without making any meaningful concessions to Washington's demands, until the end of the Trump presidency.

The threat of tariffs has also produced alarm in the US auto industry. The Motor and Equipment Manufacturers Association, which represents auto parts suppliers, warned that tariffs would shrink investment in the US at a time when the industry is being hit by declining sales.

"These tariffs, if applied, could move the development and implementation of new automotive technologies offshore, leaving America behind. Not a single company in the domestic auto industry requested this investigation," it said in a statement.

Declaring that it was "alarmed and dismayed," the association called for the Commerce Department report to be released. It said secrecy only added to uncertainty and it was critical for the industry to have the opportunity to review the recommendations and advise the White House on how the proposed tariffs, if implemented, "would put jobs at risk, impact consumers, and trigger a reduction in US investments that could set us back decades."

Just before Trump received the report, the Michigan-based Center for Automotive Research (CAR), weighed in with criticism of any tariff move. In a report issued last Friday, CAR said that a worst-case scenario would see the

loss of 366,900 jobs in auto and related industries, an increase in the price of light duty vehicle prices by an average of \$2,750, including US-built vehicles, and a reduction in US sales of 1.3 million units.

It said major auto groups had indicated that the cumulative effect for the US would be an \$83 billion price increase and that there was no evidence auto imports posed a threat to national security.

Matt Blunt, the president of the American Automotive Policy Council, representing the three major US car manufacturers, said: "We certainly think it would be very harmful to impose the tariffs. I am unaware of the any organisation, company or entity that thinks broad-based tariffs on autos and parts would be helpful for the US economy or the US auto industry."

The widespread opposition in US industry circles to the Trump tariff threats poses the obvious question: why is the administration pursuing them in defiance of all apparent economic logic?

One factor is that they are viewed as a lever in the trade negotiations to force the EU and Japan to take increased US exports, particularly of agricultural products.

But there is also another, deeper, reason. There are concerns, not only in the Trump administration, but in US ruling circles more broadly, that the impact of the globalisation of production on auto, auto parts and steel, as well with high-tech sectors, has weakened the industrial capacity of the US to wage war.

In other words, that tariff measures are considered necessary to pull production essential to the military back to American soil under conditions in which growing economic and geo-political tensions between the US and its rivals are descending toward confrontation and open conflict.



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