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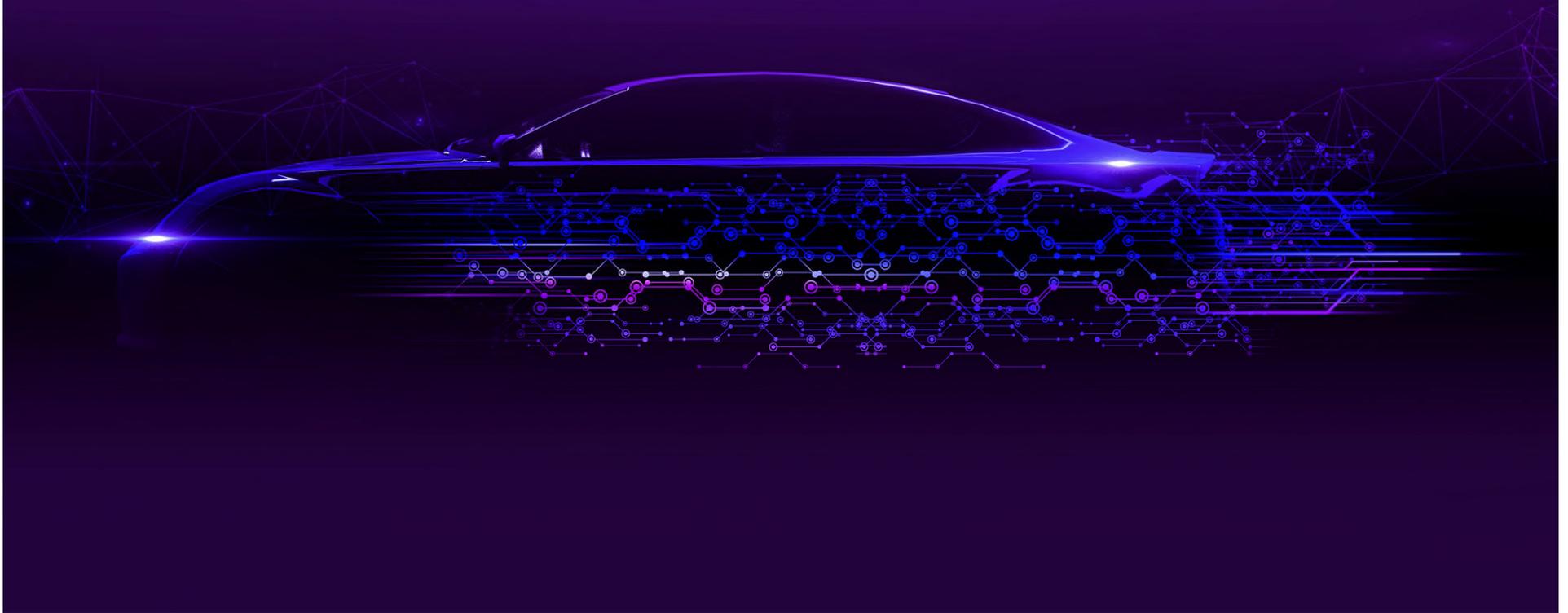
HOW TRADE REMEDIES AND NAFTA NEGOTIATIONS MAY CHANGE THE AUTOMOTIVE LANDSCAPE

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SECTION 01

INTRODUCTIONS



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Giovanna Cinelli is the leader of the international trade and national security practice. As a practitioner for more than 25 years, she counsels clients in the defense and high-technology sectors on a broad range of issues affecting national security and export controls, including complex export compliance matters, audits, cross-border due diligence, and export enforcement, both classified and unclassified.

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Carl Valenstein focuses his practice on domestic and international corporate and securities matters, mergers and acquisitions, project development, transactional finance and international trade and compliance. He counsels extensively in the life science, telecom/electronics, transportation and maritime industries, and he has worked broadly in Latin America, the Caribbean, Europe, Africa, Asia and the Middle East. He is the chair of the International Section of the Boston Bar Association. He is a frequent speaker at conferences on a variety of international compliance and transactional topics.

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Automotive Advertising & Marketing: Challenges Promoting Innovation with Evolving Technologies

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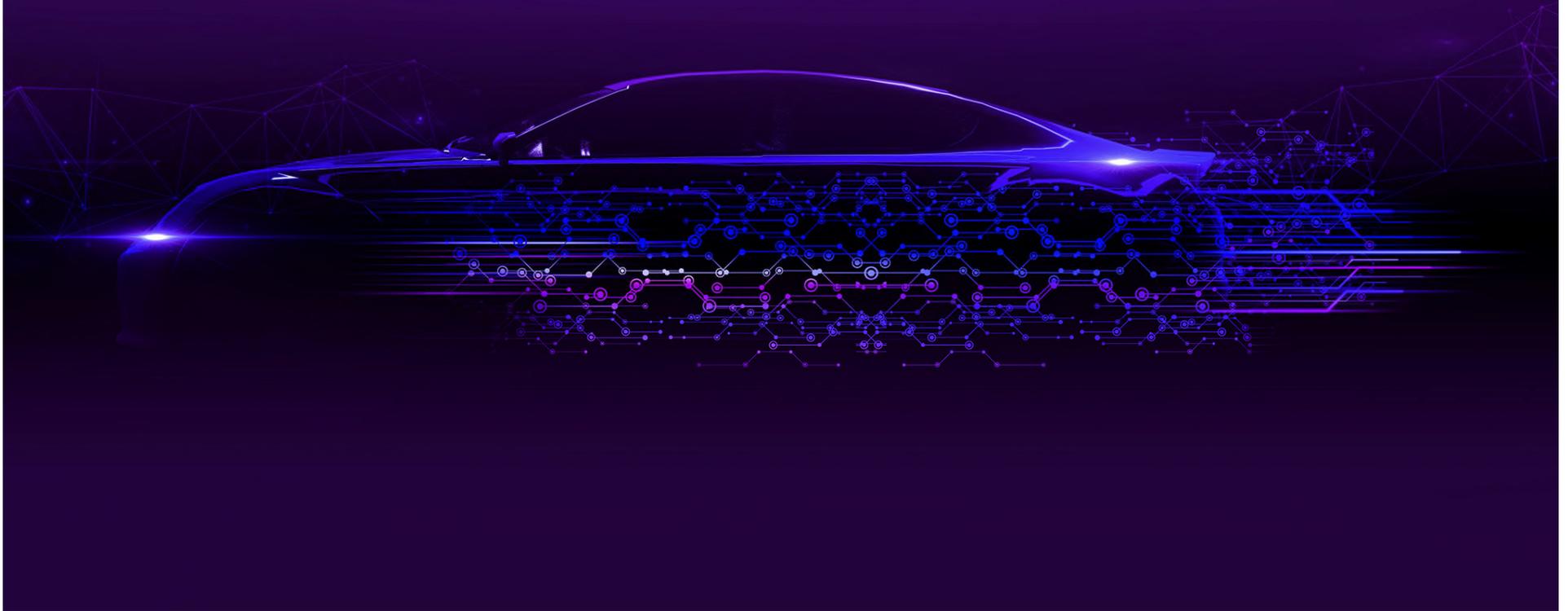
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SECTION 02

FOUNDATIONAL CONCEPTS



The Trump Trade Doctrine

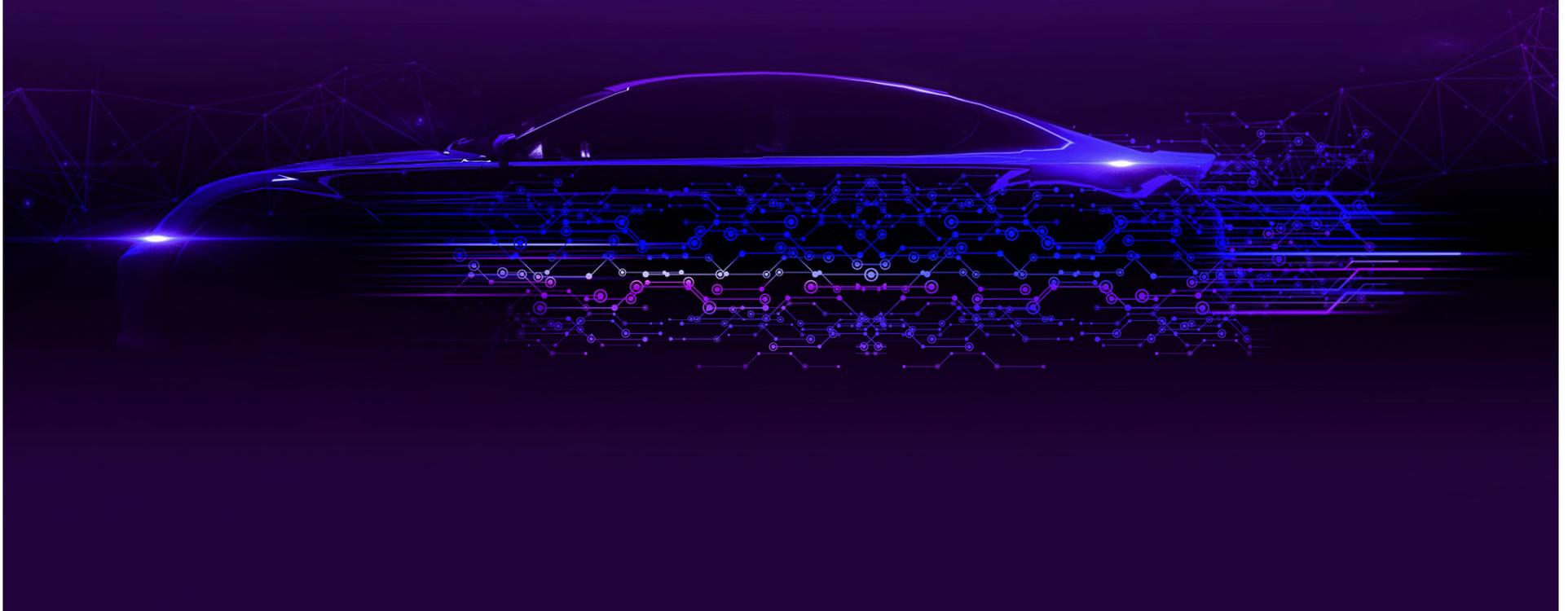
- Trade balance should be achieved wherever possible
- All “tools” should be used to remedy current trade imbalance
- America suffers from serious trade imbalances
 - Balance of trade
 - Inconsistent (or unfair) tariff application
 - Historic unfair treatment
- Trade imbalances cause adverse economic effects to America
- Tariffs are a primary tool to bring other countries to the bargaining table
 - Seeks long-term change in trade

The Trump Trade Doctrine -- Automobiles

- The automotive sector is a primary example of an industry perceived to be harmed by trade imbalances
- Auto sector growth will result if trade balance is rectified
- Traditional industries, including Auto, steel, aluminum, are important to American prosperity
- Short-term disruption is a small price to pay for long-term gains

SECTION 03

SECTION 232 OF THE TRADE ACT – STEEL AND ALUMINUM



Section 232 Investigations

- Section 232 investigations are conducted under the Trade Expansion Act of 1962, as amended, to determine the effect of imports of the identified product(s) on US national security.
- Investigations may be brought in three (3) ways:
 - upon the application of an interested party;
 - at the request of a US Government department or agency head; or
 - via self-initiation by the Secretary of Commerce.
- During the investigation, the Department of Commerce must consult with the Department of Defense, although it may also request that other agencies such as the Departments of State or Labor participate in interagency working groups.
- The Government will consider information submitted by and/or available to the public, in addition to information from industry surveys, meetings and site visits.

Section 232 Investigations

- Within 270 days of initiation, the Secretary of Commerce must provide a report to the President presenting the Department's findings and any recommended trade remedies to be implemented.
 - Tariffs are by no means the only remedy available
 - Remedies historically have included tariffs, domestic assistance, trade adjustments
- The President has 90 days to decide whether to follow the Department's findings and recommendations.
 - If the President agrees with the Commerce findings, he must implement remedial action within 15 days
 - Remedial action must address the national security concerns identified.
- Since 1980, the Department of Commerce has conducted sixteen (16) investigations under Section 232 (several on oil).
- The President implemented trade remedies, including adjusting tariffs, in nine (9) of these cases.

Steel & Aluminum Section 232 Actions

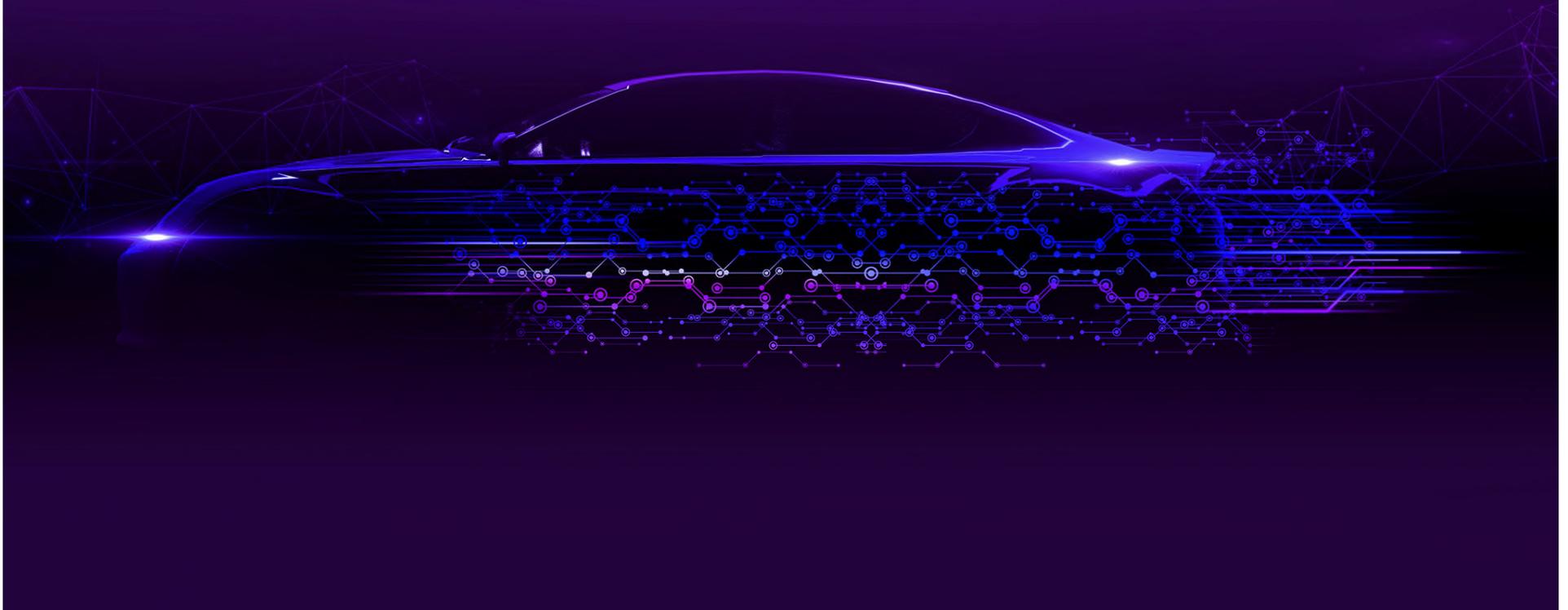
- In April 2017, the Secretary of Commerce initiated investigations to determine the effects of imported steel and aluminum on US national security.
- The Department of Commerce delivered its reports on the national security effects of steel and aluminum imports to the President on January 11, 2018 and January 17, 2018, respectively.
- On March 8, 2018, the President announced the imposition of tariffs on imports of various steel and aluminum products, to commence March 23, 2018.
 - 25% tariff on specified steel products
 - 10% tariff on specified aluminum products
- The tariffs apply to broad categories of steel and aluminum products, including many automotive parts.

Exclusions from Section 232 Tariffs – Steel and Aluminum

- The Department of Commerce announced exclusion request procedures on March 19, 2018.
- The Department has received more than 10,000 exclusion requests
 - This is partially a function of the process, which required extreme specificity for each request to be considered
 - No exclusions appear to have been granted yet
 - There is no deadline for exclusion requests or for the Department to grant or deny exclusions.
- After reaching new quota agreements, the Trump Administration granted long-term exclusions for steel from Argentina, Australia and Brazil, and for aluminum from Argentina and Australia.
- Steel from South Korea is subject to a new import quota but is permanently excluded from the tariffs (due to renegotiated KORUS trade agreement).
- Tariffs on steel and aluminum products from Canada, Mexico and the EU went into effect on June 1, 2018.
- Exclusions for Canadian and Mexican origin products, however, may still be in flux due to ongoing NAFTA negotiations.

SECTION 04

SECTION 232 OF THE TRADE ACT – AUTOMOBILES



The Automobile Investigation

- On May 23, Commerce initiated a section 232 investigation into the effect of automotive industry imports on national security.
- The investigation covers cars, SUVs, vans, light trucks and automotive parts.
- On May 30, the Department of Commerce announced the following timeline and deadlines for the stages of the investigation:
 - June 22, 2018: Initial written comments
 - June 22, 2018: Requests to present oral testimony at hearing
 - July 6, 2018: Rebuttal written comments
 - July 12, 2018: Presenters chosen to testify at hearing are notified
 - July 19-20, 2018: Public hearing
 - February 17, 2019: Investigation report submitted to the President

How to get involved

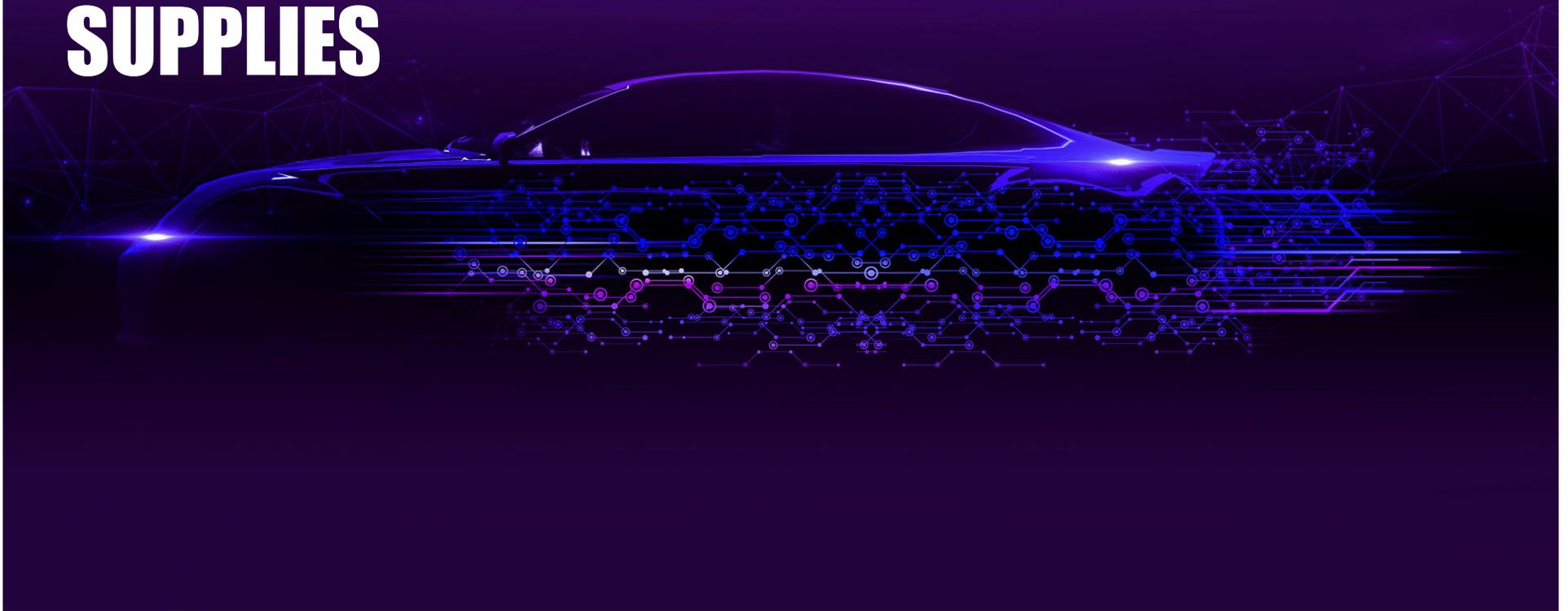
- As the timeline illustrates, the Department has provided for and is expecting significant public involvement in this investigation.
 - Already more than 700 comments have been submitted
- The Department is interested in receiving information related to imports of automobiles and automotive parts, especially with respect to:
 - the impact of these imports on the national economy, including but not limited to serious negative effects experienced by the domestic auto industry as a result of these imports;
 - the need for these products for the national defense
 - whether the domestic industry can presently or could, with some growth, meet current defense needs (inherent in this is the development of a definition of what = “defense needs”)
 - the circumstances required to support growth in the domestic industry for projected defense needs, including the extent to which industry innovation is necessary
 - whether considering US-owned domestic producers separate from foreign-owned domestic producers changes the analysis of the factors above.

How to get involved

- The Department will accept rebuttal comments to comments submitted in the first round through July 6.
- Comments are made available to the general public, though commenters may request confidential treatment for national security classified information and certain types of sensitive business confidential information.
- The investigation hearing to be held July 19 and 20 is open to the public. Attendees will be admitted on a first-come, first-served basis.
- Depending on the comments and hearing testimony received, the Department may provide additional opportunities for public engagement.

SECTION 05

**SECTION 301 –
AUTOMOTIVE PARTS AND
SUPPLIES**

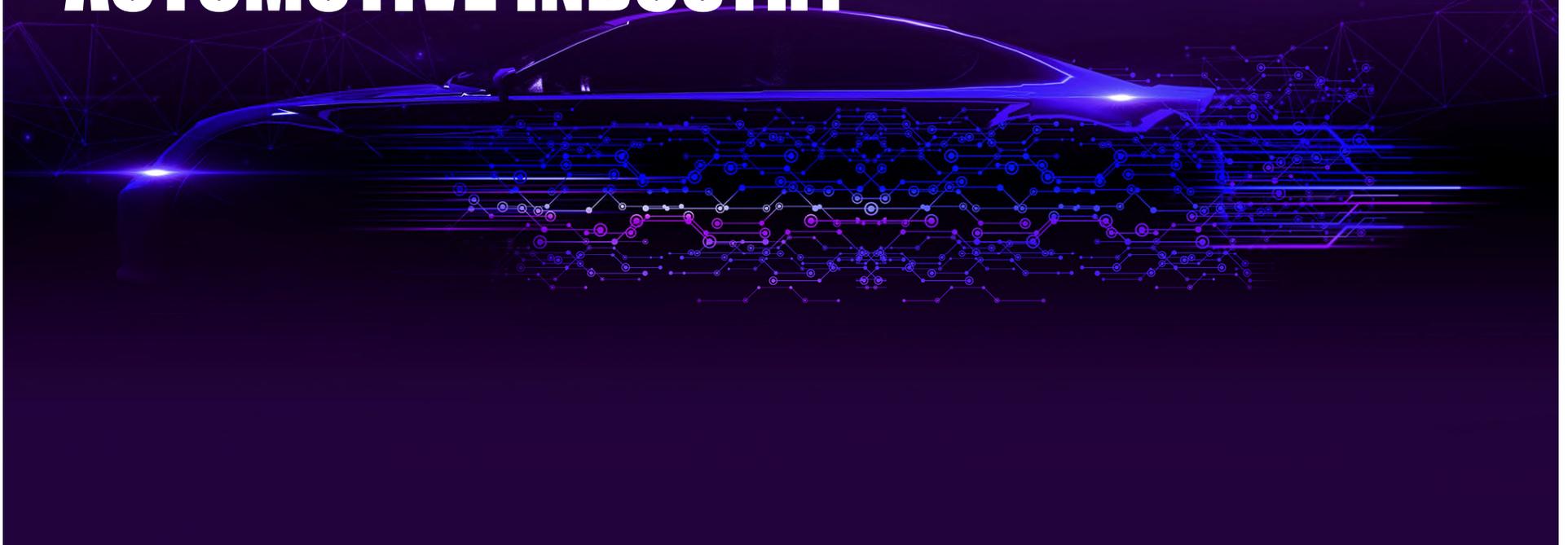


Section 301 relief includes numerous auto products

- The US Trade Representative issued the “final lists” of goods subject to tariffs as a result of the findings under section 301
- The new tariffs become effective July 6, 2018
- The lists include numerous automotive goods
 - Items subject to Harmonized Tariff Codes 8701 to 8706 (passenger vehicles and parts)
 - Items subject to Harmonized Tariff Codes for other trucks (8705-8709)
 - Electric engine vehicles: 8703.80.00
 - Various passenger vans (10 persons or more; 16 persons or more)
 - Motorcycles
- Tariff increase will be 25% ad valorem

SECTION 06

HOW THE SOLAR 201 TARIFFS HAVE AFFECTED THE AUTOMOTIVE INDUSTRY

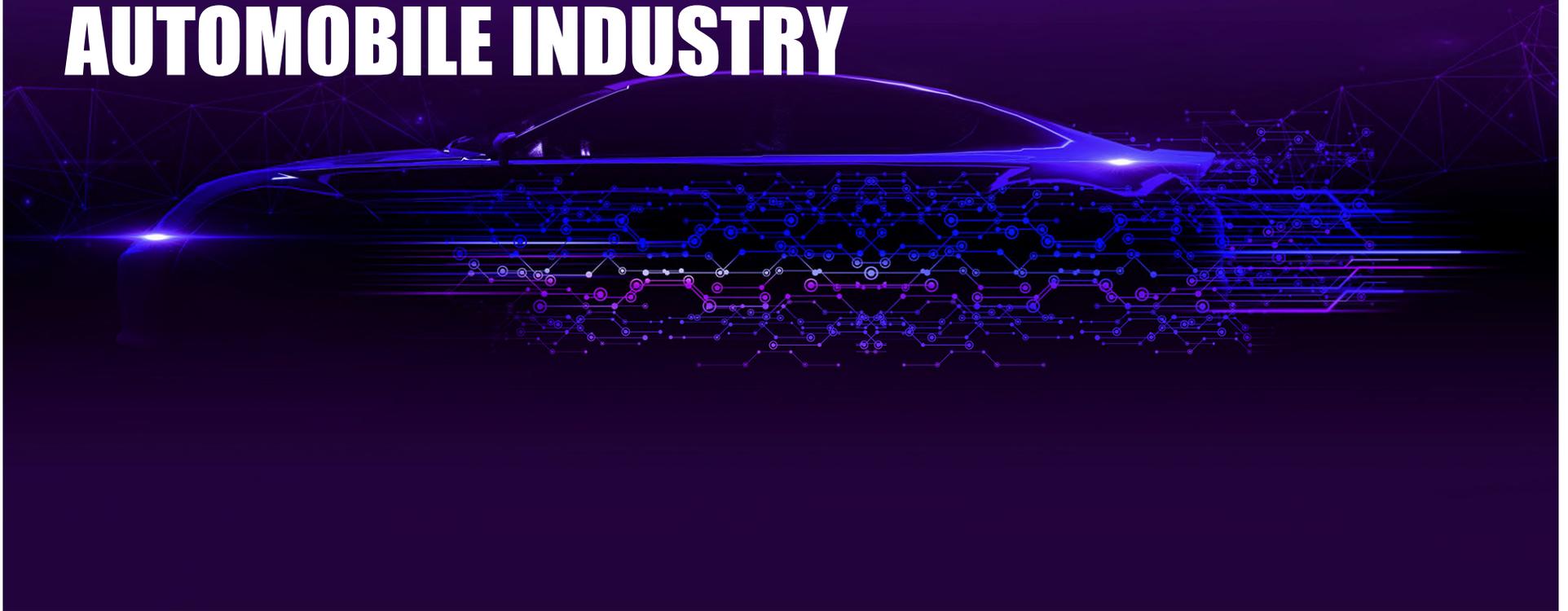


Section 201 Solar Case

- Found domestic injury due to imports of solar cells and panels
- Imposed 30% tariff (declines 5% each year) for four years
- Subject to reevaluations on set schedule
- Exemptions entertained; few granted, even for isolated products
- Almost all exemptions opposed by petitioning manufacturers
- Quotas also imposed for cells – 2.5GW of cells
 - Means higher tariff kicks in after quota is reached
- Not country specific, but some country exemptions (i.e., India)

SECTION 07

NAFTA NEGOTIATIONS AND THE IMPLICATIONS FOR THE AUTOMOBILE INDUSTRY



Trump Administration Strategy on NAFTA

- Candidate Trump vowed to withdraw from NAFTA but President Trump opted to seek to negotiate improvements under the threat of a withdrawal.
- Negotiations started in late 2017 in part because of late confirmation of USTR and there have been multiple rounds.

Trump Administration Strategy on NAFTA

- Very aggressive positions taken by US negotiating team, particularly on automobile content issues, which is one of the biggest obstacles to completing the deal.
- Industry has complained that US negotiating team has not been responsive to industry concerns.

Summary of Automobile Content Issues in NAFTA

- Current automobile content rules require 62.5% NAFTA content to qualify for duty-free treatment.
- US currently wants to increase this number to 75% and also to require that 40% of the workers making passenger cars (45% for light trucks) be performed by workers making an hourly wage of at least US \$16, which is far above average Mexican wage. These rules would be subject to 4-year phase in period.
- Mexico responded with a 70% NAFTA content requirement and rejected the wage rule. It also requested a 10-year phase in period.

Status of NAFTA Negotiations

- Chances of concluding the NAFTA negotiations in 2018 are slim given Congressional notification requirements under so-called “Fast Track” legislation.
- Deal would have to be cut before Mexican Presidential election on July 1 and there are few signs of progress. Left-wing candidate Obrador is leading in the polls—may take tougher negotiating position.

Status of NAFTA Negotiations

- Administration distracted with Section 301 trade conflict with China and other high-profile issues such as immigration.
- US relations with Canada post G-7 conference and with Mexico over NAFTA and immigration issues are strained and these governments appear to remain defiant in the face of the threats from the US administration and imposition of tariffs on steel and aluminum following expiration of waivers.

Possible Scenarios if NAFTA Negotiations Break Down

- President Trump could give six-month advance notice of withdrawal from NAFTA to put further pressure on Canada and Mexico.
- US Administration could seek separate bi-lateral agreements with Canada and Mexico but it is unclear if they are willing to enter into such negotiations.

Possible Scenarios if NAFTA Negotiations Break Down

- Withdrawal from NAFTA would result in the loss of certain benefits but tariffs would return to relatively low MFN levels (2.5% ad valorem on average).
- President Trump has statutory authority under various statutes (including Section 232) to impose tariffs on goods entered from Canada or Mexico and has threatened tariffs up to 25%.

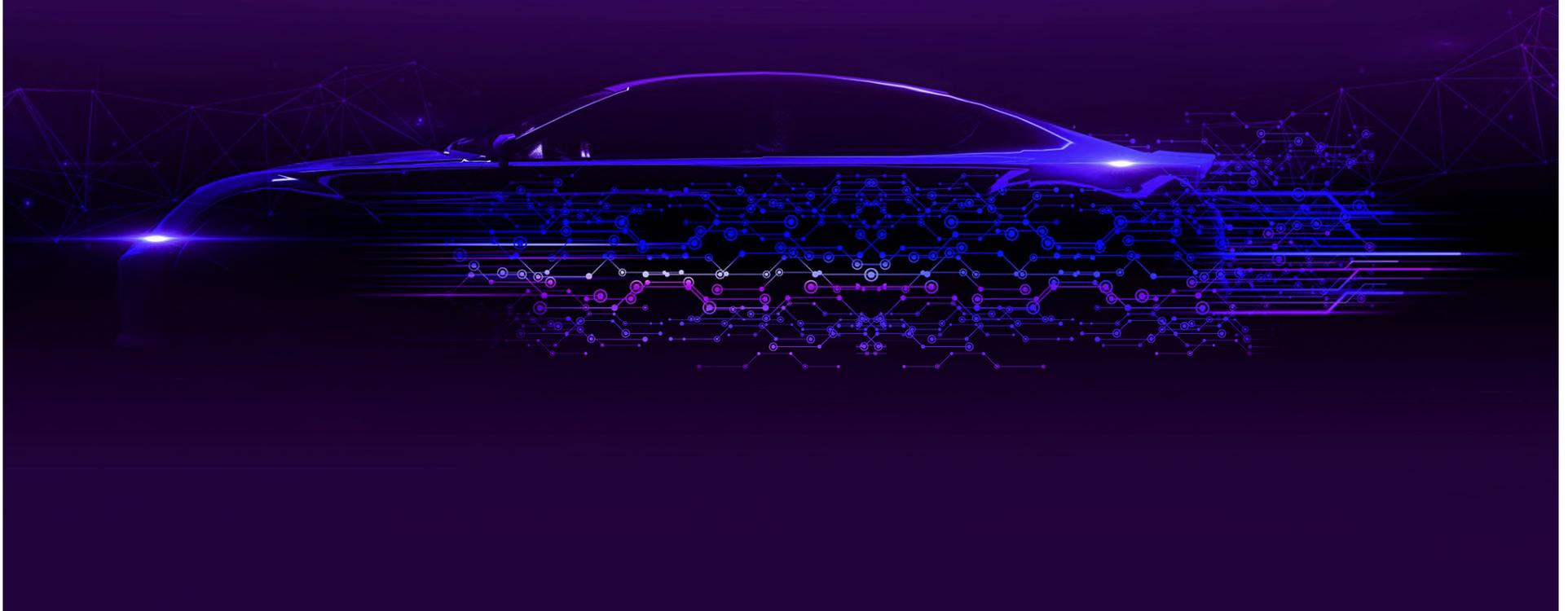
Possible Scenarios if NAFTA Negotiations Break Down

- Even though Canada or Mexico might bring WTO or NAFTA actions these would have no immediate effect on the US administration and, historically, have had little long-term effect. NAFTA and WTO do not allow for private rights of action in US courts for affected parties.
- Risk of retaliatory tariffs by Mexico and Canada – already imposed in response to steel and aluminum tariffs.

Possible Scenarios if NAFTA Negotiations Break Down

- US withdrawal from NAFTA would upset automobile industry supply chains and export channels that have been in place for the last 24 years.
- It is not clear that such action would achieve the US administration's goal of increasing US automobile production and may result in opportunities for other trading partners, such as Japan, South Korea and possibly China (subject to Section 301 tariffs).

QUESTIONS?



THANK YOU

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