



## **Comments Regarding Section 232 National Security Investigation**

**DOC-2018-0002**

**Full Submission**

**June 22, 2018**

The following submission by U.S. Wheat Associates raises concerns about trade restrictions that the Department of Commerce may recommend at the conclusion of the Section 232 national security investigation on imports of automobiles and automotive parts. U.S. Wheat Associates strongly encourages the Department of Commerce to stick to serious national security concerns when using Section 232 and avoid making this process even more ridiculous than it has become after the steel and aluminum investigations. Before taking action under Section 232, the Department of Commerce should consider the fallout if other countries follow suit and impose restrictions on U.S. wheat or other products as a result of their own national security concerns, whether real or imagined.

### **GATT Article XXI**

U.S. Wheat Associates continues to be extremely concerned about the potential ramifications of import protections based on national security arguments. Under the 1994 General Agreement on Tariffs and Trade (GATT) Article XXI, national security can be a legitimate reason to restrict trade, but this has been rarely cited for very good reason: Article XXI is the Pandora's Box of the GATT. If it is opened for our import sensitive industries, the results could be devastating.

Outside of a few obvious, generally uncontested areas, such as trade in weapons and nuclear material, most trade in goods are not considered national security issues because the implications are enormous. Steel and aluminum were undoubtedly import sensitive products. The Department of Commerce should have thought carefully about the potential consequences of declaring steel and aluminum imports to be national security concerns. But in spite of the irresponsible actions announced earlier this year under Section 232, whatever surface level plausibility existed for justifying restriction on steel and aluminum imports is entirely absent when it comes to automobiles.

### **232 Tariffs As Negotiating Tools**

It should be obvious by now that labelling imports from any country – not to mention longstanding allies – is not an effective negotiating tool for reducing trade barriers. This has been clearly demonstrated from the response to the steel and aluminum actions, with most countries

choosing to retaliate and public polling showing strong support for a firm response to unilateral actions by the United States. Instead of encouraging negotiations, unilateral actions steel the resolve of leaders in other countries to resist U.S. pressure.

### **Effects of Tariffs**

This has already hit U.S. agriculture hard, with tariffs on hundreds of food and agricultural products announced as a result of the steel and aluminum tariffs. While we don't expect any of these tariffs to have significant effect on wheat, the case of automobiles is much more dangerous because the dollar figures are so much larger. U.S. farmers have not escaped the steel and aluminum tariffs, but U.S. wheat largely has to date. Automotive imports in 2017 were about 10 times larger than steel imports, and much of this came from significant wheat importers like Mexico, Japan, South Korea, and the European Union. The chances that U.S. wheat farmers will face retaliation increases substantially if the final measures reflect the scope of the investigation.

As for our serious concerns about the implications of this action for the global trading system that wheat farmers depend on, we reiterate here our statement from U.S. Wheat Associates' DOC-2018-08499 submission:

### **Food Security as National Security**

The U.S. wheat industry is highly dependent on exports, with roughly half of U.S. wheat production exported each year on average. Of course, the Department of Commerce decision will have no direct effect on wheat exports from the United States or any other country. However, anytime a trade restriction is put in place, there is the potential for it to be applied to U.S. exports in response, particularly if trade restrictions are imposed outside the World Trade Organization (WTO) dispute settlement system.

It is undoubtedly the case that for many countries – perhaps every country – food security is a critical component of national security. Throughout history, countries that lack sufficient and affordable food have seen rebellions begin, governments collapse, and armies cross borders. Nor is this problem relegated to the history books; what was once called the Arab Spring traces its proximate causes to food supply disruptions. The effects are still felt across the Middle East, including Iraq and Syria where the Islamic State seized large portions of the wheat production areas in those countries.

Traditionally, when states or empires sought to maintain food security, the goal was to ensure sufficient food production within their own territories or dependent states. From the ancient Roman occupation of the Egyptian bread-basket to the British Corn Laws in the 19<sup>th</sup> century, and countless other examples before and after, governments have considered domestic food production to be an integral part of national security.

In the past several decades, that perspective has changed across many countries, to the benefit of competitive U.S. farmers who are now able to sell products around the world. This change has come because open markets and declining state intervention have made reliance on imported supplies a viable food security option for most countries. Large volumes of wheat are available from a number of origins, including the United States,

mitigating risks of dependence on untrustworthy suppliers. Global supply chains ensure that wheat is available for purchase somewhere in the world at all times.

### **Undermining Trade Rules a Short-Sighted Mistake**

U.S. farmers also rely on international commitments made by countries in the WTO and other trade agreements to keep markets open. However, not every country abides by those rules, and a radical shift by the United States in its respect for trade commitments could give effective ammunition to those who seek to stop or slow food imports under the guise of national security.

In particular, countries like India and China have pursued explicit strategies of import substitution by encouraging domestic production of wheat. China in particular pursues a policy of near self-sufficiency in wheat, and it tends to import only 2-3 percent of its consumption needs. If China were to simply comply with its WTO commitment, it would be one of the world's top 5 importers and still be over 90 percent self-sufficient.

Meanwhile, India has programs aimed at vastly increasing the domestic supply of wheat through subsidies and import protection, and its primary aim at the WTO is to create a "food security" loophole so that trade-distorting programs like this would not be subject to challenge. If the United States acts to substantially broaden the definition of national security through actions on steel, will there be a remaining argument to prevent India and China from demanding similar protection for wheat from a national security standpoint?

Even large wheat importers like Japan, Turkey, and Brazil have sought to ensure varying percentages of wheat consumption comes from domestic production. Countries that are currently highly dependent on wheat imports may decide – perhaps after pressure from their farmers – that the current level of imported wheat is too high and may damage national security.

Every country has the sovereign right to ignore trade commitments, but the rules exist because most countries recognize that deference to those rules creates a more fair trading system. The strength of that system is not guaranteed, and the United States has been a bulwark in maintaining it, to the benefit of U.S. agriculture and many other industries. Undermining that system through an extraordinarily loose application of national security exceptions would be a short-sighted mistake.

### **Conclusion**

The breathtaking leap of logic required to recommend tariffs on imported automobiles and parts due to their threats to national security suggest that the only plausible reasons for this action are either economic protectionism in violation of our WTO commitments or a negotiating tactic. Use of this statute as a negotiating tactic is an abuse of the authority granted by Congress and economic protection is available through trade remedy laws if the need for protection meets the requirements of the relevant statutes. In either case, the Department of Commerce should find that these imports do not threaten national security.