Center for Strategic and International Studies

The Trade Guys Podcast

“Only as Good as the Next Tweet”

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SCOTT MILLER: I’m Scott.

WILLIAM ALAN REINSCH: I’m Bill.

MR. MILLER and MR. REINSCH: (Together.) And we’re The Trade Guys.

(Music plays.)

H. ANDREW SCHWARTZ: You’re listening to The Trade Guys, a podcast produced by CSIS, where we talk about trade in terms that everyone can understand. I’m H. Andrew Schwartz. And I’m here with Scott Miller and Bill Reinsch, the CSIS Trade Guys.

In this episode The Trade Guys are back at it, and we welcome another special guest. Cody Lusk is the president of the American International Automobile Dealers Association. The Wall Street Journal reports that the Trump administration is slowing down its decision to impose tariffs on auto imports. So what will this mean for the auto industry? Cody joins us in the studio to talk about what he’s hearing and what’s on the mind of auto dealers across the nation.

Gentlemen, start your engines. We’re here to talk cars again, my favorite subject. Cody Lusk is here. Cody, thank you for being here with us today.

CODY LUSK: Great to be here.

MR. SCHWARTZ: Tell us what’s going on. I mean, the – today the news is that the Trump auto tariff timetable is likely to slip amid Europe and NAFTA talks that are ongoing. Commerce Secretary Wilbur Ross spoke to my buddy Jake Schlesinger at The Wall Street Journal and gave a pretty wide-ranging interview. But we still don’t really know what’s going on. How does this affect you and the almost 10,000 auto dealers that you represent?

MR. LUSK: Well, I think the big concern – and what my guys really want, and we represent the 10,000 international nameplate franchise dealers that are out there –

MR. SCHWARTZ: So that’s Audi, BMW, Honda –

MR. LUSK: Audi, BMW – everybody but GM, Ford, and FCA.

MR. SCHWARTZ: Right.

MR. LUSK: But what they want is certainty. And, you know, the deal in sort of –

MR. SCHWARTZ: Did I just say Audi? It’s really Audi. My God. My wife’s going to kill me. (Laughter.) I’m sorry to interrupt.

MR. MILLER: Latin, to hear.

MR. SCHWARTZ: Yeah, yeah.

MR. LUSK: That’s right.
MR. SCHWARTZ: Audi. I’m sorry, Cody.

MR. LUSK: And so, yeah, what they want is certainty. And, you know, they kind of deal in 30-day cycles. That’s really – that’s really the life of an auto dealer, is the end of the month and how this is going. And what we’re seeing right now –

MR. SCHWARTZ: So what’s the best time to buy?

MR. LUSK: Well, every day is a good day. (Laughter.)

MR. REINSCH: If you – we’ll get you an Audi, an Audi, whatever you want. We’re happy to do it.

MR. SCHWARTZ: I mean, people love cars, but they don’t always love car dealerships. I happen to love car dealerships because my wife goes in there and they just don’t – they’re, like, we’re going to make money on somebody else. They just decide that. And so we always just –

MR. LUSK: You know, the world has really turned on that. And I think that in today’s world my guys spend most of their time figuring out how to maintain a customer. I mean, they want – they want a customer for life.

MR. MILLER: It’s a service business, really. That’s right.

MR. LUSK: It’s a service business. So if you’re – you know, if you’re beaten over the head coming in, I’d walk right out and go to another place because they’re going to treat you a heck of a lot better.

MR. SCHWARTZ: Well, you know, to back you up on that, my – I drive an Audi. And, you know, here in Bethesda. And Audi’s, of course, headquartered in Northern Virginia. The Audi dealer in Bethesda has made basically a customer of life for me because of the way they treat me. And they – and they – and we actually have two. My wife has one also.

MR. LUSK: Oh, good. I appreciate it. Yeah.

MR. MILLER: They earned it. They earned your business. Yeah, that’s great.

MR. SCHWARTZ: So you speak the truth.

MR. LUSK: There you go.

MR. REINSCH: You’re talking to somebody who has no brand loyalty at all, just for the record.

MR. SCHWARTZ: Trade Guy Bill has no trade loyalty. Oh, and by the way, listeners, Trade Guy Bill is coming to us from an undisclosed location today. So we’re going to – we have him here with us via phone. And we’re happy to hear him weigh in. So, no brand loyalty? What is that – what’s that all about?
MR. REINSCH: No brand loyalty. Over the years we’ve owned Fords, Hondas, Subarus, Mitsubishis, Volvos, Infinities, Prius – I mean, Toyota. We even had an Opel for a while, Volkswagens –

MR. SCHWARTZ: That’s a lot of cars.

MR. LUSK: That’s a lot, yeah. He’s a great customer, it sounds like.

MR. REINSCH: We’re old. (Laughs.) We’ve bought a lot of cars.

MR. LUSK: I’m going to get your contact information once we’re done here. (Laughter.)

MR. MILLER: Now, full disclosure, Bill now drives a Ford Mustang. So he does have some – he understand the car as an entertainment device.

MR. SCHWARTZ: A classic car. But, so you represent the foreign nameplate auto dealers. And you’re advocating what now? Because I mean, a recent study showed that on average new vehicle prices – if there is a 25 percent tariff that’s imposed, new vehicle prices would rise by almost $5,000. Imported vehicles’ cost would increase almost $7,000. Even American cars that are U.S. built – which, of course, include imported parts, they’d go up almost $3,000. So this is a lot of money that anybody’s facing.

MR. LUSK: Well, I think the – and what the issue is here is this is the 232 investigation and the opinion I think of the entire auto center, is really a solution in search of a problem. And that –

MR. SCHWARTZ: The 230 investigation is the national security component of this?

MR. LUSK: Right, the – who knew the most dangerous place on earth, possibly, was the parking lot of Mar-a-Lago. (Laughter.) And, you know, that’s the reality that we’re looking at right now, and that’s how laughable that this is. Unfortunately, this is a real investigation and with real consequences. And what you’ve seen, unlike steel and aluminum, where you actually had a domestic industry advocating for some type of relief and some type of help, no one on the auto side has asked for this. If you look at the testimony, you know, no one said tariffs were a great idea on the auto sector. And that’s because this is really a global industry today. It’s completely integrated. They all share parts suppliers from all around the world.

You know, and my guys – my guys just want to sell customers what they want. You want an Audi? Whatever model you want, we want to get that to you. If you’re putting a 25 percent tariff on, you’re going to see limited choice. You’re going to see higher prices. My guys are going to suffer. Everything they do is going to be more expensive – the cars they finance are going to be more. The parts they buy. Your repairs are going to go up. Your oil change, your part – everything is going to go up. And that’s going to have a negative consequence sort of across the board.

MR. MILLER: Well, you make the point that it’ll shrink the market. But also –

MR. LUSK: Oh, 2 million units.

MR. MILLER: But also there’s a safety dimension to this.
MR. SCHWARTZ: It’ll shrink it by 2 million units? Is that what you estimate?

MR. LUSK: Two million units, yes.

MR. MILLER: Yes. But the people who can’t afford a new car will hold onto their car longer, which has consequences for public safety. That’s got to be part of the calculation here.

MR. SCHWARTZ: Right.

MR. LUSK: And you’ve also seen right now used car prices, guess what, are going up under this. And so – and we’ve also – we’ve seen, you know, 25 percent is a big number. You see that we have – you know, we’ve always failed to mention we have a 2 ½ percent car tariff. But we also have a 25 percent tariff on imported trucks and vans. And so that’s why nobody imports any of those.

MR. SCHWARTZ: You don’t see those. Right. That’s right.

MR. LUSK: (Laughs.) You know, I’ve got a lot of my members who want to sell pickup trucks. Volkswagen would love to have a pickup truck to sell. Hyundai would love to have a pickup truck to sell. But they don’t –

MR. SCHWARTZ: I think Bill’s phone’s ringing from far away. No, tell us about that. I mean, most people don’t even know Volkswagen makes a truck – a pickup truck.

MR. LUSK: Right. Well, they don’t – they don’t yet, but they’re hoping to. But there are other place they could get – or, other places they could import from that do make trucks. And they could make – they could conceivably – you know, the world is filled with small, unique pickup trucks in other places. Mazda builds a truck in Thailand. They would love to import that. But a punitive 25 percent tariff has prevented that. And that is sort of the dirty little secret when we start talking about auto tariffs. We’re always focused on the EU’s 10 percent tariff. Well, Japan doesn’t have any, you know, auto tariffs. You know, the U.S. FTA with the – the KORUS, that eliminated that. So if you want to talk auto tariffs, we have our own little sort of shady side.

MR. MILLER: Well, also, this is a lesson in the persistence of tariffs once you raise them, because that 25 percent tariff on trucks is commonly known as the chicken tax. It goes back to the Lyndon Johnson administration and a dispute between Germany and the United States over imported chicken.

MR. LUSK: Right. Yeah. Yeah. (Laughs.)

MR. SCHWARTZ: I was going to say, why chicken?

MR. MILLER: Well, because –

MR. SCHWARTZ: I think you mentioned this before in a previous podcast.

MR. MILLER: Well, we wanted to export chicken to Germany. The Germans found lots of outrageous reasons to reject those chickens despite, you know, their safety for consumption. And the dispute escalated. And because in the 1960s Volkswagen had a very successful van which we all
remember as the hippie van. That came in a pickup truck configuration. And to try to get the attention of the disputing parties, the U.S. raised tariffs to 25 percent on light trucks. It’s never been –

MR. REINSCH: Temporarily raised those. (Laughter.)

MR. MILLER: Temporarily, yes. And as Ronald Reagan once said, there’s nothing as permanent as a temporary government program. That tariff is still on the books. We’ve never reduced it. In fact, when we renegotiated the Korea agreement just a few months back, we extended the terms of the tariff. It’s having a longer phase after –

MR. SCHWARTZ: There’s still a chicken tax.

MR. MILLER: Still a chicken tax.

MR. LUSK: Still a 25 percent tariff.

MR. MILLER: After all these years.

MR. SCHWARTZ: Not a lot of Popeye’s in Germany, I guess. (Laughter.)

MR. REINSCH: But you guys – you guys got a break today, I think, if you saw Secretary Ross’s interview in The Wall Street Journal.

MR. SCHWARTZ: We did.

MR. REINSCH: The study won’t be done this month, and maybe not done before the election – which I think, one, is a sign that they’re having trouble making the case. And but it also suggests that we may not see any action on this before the election, which surprises me a little bit because it sounded earlier like the president was really hot to impose the tariffs as apolitical move before the election.

MR. SCHWARTZ: Why is he doing this now, Bill? Why do you think?

MR. REINSCH: Well, I think partly it’s substance-driven. And it’s the same thing that happened with steel, you know? They start this investigation and say, oh, this is easy. We’ll have a quick – we’ll have a quick solution. Then they discover that it’s not easy. They sent a very complicated questionnaire out to the manufacturers, who have all protested about the amount of detail that’s being requested. And of course, having done that, they have to read them all. And they have to read and analyze all these questions. And it finally dawned on the secretary at Commerce that they’re not going to get the work done in time.

MR. SCHWARTZ: Ross even told the Journal – he said, quote, “We just received elaborate questionnaires from the car companies with zillions of pages. And that won’t be ready in five minutes. We’re running out of August.” I mean, he didn’t know there was going to be zillions of pages?

MR. MILLER: No, he didn’t, because they look at the world as if it were still the 1980s, and what is made here is sold someplace else, and that there aren’t global supply chains. OK, the administration is blissfully unaware of how the work economy actually works, how things are actually made. And what they’re discovering is that every car company – whether U.S. nameplate or foreign nameplate – is a global business. They look at the world as a global entity. They produce on global
platforms. They all have regional production schemes. And it’s very, very complicated. The suppliers have the same – if not to a greater degree – of complexity in their systems. And when you start to pull it apart with sort of blunt force tariffs, you create a complete mess.

MR. REINSCH: And these suppliers are already starting to feel the effect. And many of them are really suffering as a result of the steel and aluminum tariffs that have already been put on. And the industry is suffering. You’ve seen price increases go up across the board on a lot of the products already as a result of that. And also those same Commerce Department people are the ones having to deal with the exclusion request from steel and aluminum while also simultaneously trying to do all this work. And so I agree, Scott, this is – I think it’s a heck of a lot more complicated than they thought. And the unified – I think the unified opposition was a lot more – a lot bigger than they anticipated.

MR. MILLER: Well, you can say that again. I mean, 47 individuals and firms testified. Forty-six of the 47 opposed it outright. And the 47th, which was the labor movement’s testimony, hedged. They basically said, well, a little bit of selective tariffs would be OK, but don’t do the whole thing.

MR. SCHWARTZ: OK, so what does that do? I mean, if that many people are coming out against it, you’re talking about, you know, the jobs that could be lost from this are almost catastrophic. I mean, we’re talking about half a million jobs or more?

MR. LUSK: Yes. At least you’re talking about right off the bat $200,000. You’re talking about with the retaliatory tariffs –

MR. SCHWARTZ: Two hundred thousand jobs.

MR. LUSK: Jobs. And you’re talking over 600,000 jobs in total that could be jeopardy.

MR. SCHWARTZ: Because it’s 200,000 jobs right away if we impose tariffs, but then it could triple if they retaliate, right?

MR. LUSK: Correct.

MR. SCHWARTZ: So you’re talking about 600,000 jobs. That’s nothing to sneeze at. And meanwhile, as Scott said, they’re blissfully unaware? I mean, are they blissfully unaware of that?

MR. MILLER: If they read the questionnaires, they won’t be. (Laughter.)

MR. SCHWARTZ: There’s zillions of pages. I don’t know if they’re going to read them.

MR. LUSK: Well, but that goes – but that goes to the other part of this, that I think there is an element of the Trump world and there’s, quite honestly, an element of Congress that says: This is the art of the deal. You might not like it. You might not think it’s pretty. But this is now the president negotiates. And he’s negotiating deals. Well, I think you’re starting to see the pushback from Congress to say: Hey, we’ve been with you, but we really need to see some deals. And we haven’t seen the deals. And so I think maybe Ross’ comments, you know, today were saying, hey, we’ve got this – maybe this really isn’t about national security. It’s about getting some headway with the EU, on NAFTA, even with the Japanese that have been coming to town. So there’s a lot of trade balls in the air, so to speak. And we don’t know – you know, all we know is that I don’t think this tariff threat is going away anytime soon.
MR. SCHWARTZ: Well, Bill, do we see any evidence of President Trump and his administration making any headway with the European Commission since Jean-Claude Juncker was just here and they whispered to each other that there was some kind of deal. But is there really a deal? What’s going on?

MR. REINSCH: Well, like with everything else, you know, he get an incomplete. The Europeans are back this week to talk about that. But the discussion’s going to be –

MR. SCHWARTZ: Scott does not like incompletes.

MR. MILLER: (Laughs.)

MR. REINSCH: (Laughs.) Well, it’s better than an F, I suppose.

MR. SCHWARTZ: Yeah.

MR. REINSCH: The Europeans are back this week to talk about, what are we going to talk about? And the discussion is going to be what might we be able to reach an agreement on, and what can we not reach an agreement on? And, you know, they did have that nice happy session when Juncker was here in July. And the next day, they immediately disagreed over content. The Europeans said agriculture is off the table, and the Americans said it ought to be on the table.

MR. SCHWARTZ: So the Europeans are here this week. And they’re trying to hammer something out where it’ll – what would be the result of their negotiations?

MR. REINSCH: They’re supposed to be spending 120 days – soft deadline – but supposed to be spending 120 days outlining the parameters of what an agreement would look like. But then – that would then produce two things. One, the EU – because of their rules, would have to go back to Brussels and get a mandate to have a negotiation on the terms that they just spent 120 days discussing. And the United States would need to notify the Congress that it intends to enter into that negotiation, you know, subject to our trade promotion authority rules. So that’s all a little bit in the future.

I think what they are mostly going to do is keep taking things off the table until they have a set of things that they think that they can negotiate and agree on. I mean, keep in mind, we’ve been talking to the Europeans about this stuff for 30 years. And none of these issues – none of these issues are new. And we haven’t had a lot of success, because they’re hard intractable issues. A lot of politics on both sides has to be expected. But I think what’s happen is they’re going to say, well, agriculture is too hard, procurement is too hard, some of these IP issues may be too hard. Let’s make a list of the things that we think we can agree on. And, you know, the more stuff you throw over the side the smaller the agreement gets, but the easier it gets. And I think they end up with something to talk about, no question, and a negotiation.

For Cody’s purposes, the interesting thing about this, as you know, is that the president said I’m not going to do car tariffs with them while we’re talking, which among other things suggests this is going to be a really long talk. (Laughs.)

MR. SCHWARTZ: OK, OK, so what does that mean for you and your guys?
MR. LUSK: Well, you know, you’re only as good as the next tweet.

MR. SCHWARTZ: Right.

MR. LUSK: But I think that’s a positive.

MR. REINSCH: Good point.

MR. LUSK: We sort of viewed that from a positive light. We met with the EU before they sat down with the president. And, you know, we informed that I don’t – don’t be – I wouldn’t expect him to take, you know, tariffs of – auto tariffs off the table. He likes throwing that out there. He likes having that anvil over the head. That being said, we did view that it – whatever they agreed to, we at least portrayed it in a positive light. And the president tweeted positively about that. And we take any positive tweet about trade. (Laughs.) There are very few.

But at least they agreed to keep talking. And I think Bill is right. You know, we – there was a lot of what does this mean about the 232 and where does it put the 232? And Ross made the comment that, you know, we’re not going to do anything as long as we’re – as long as these talks are progressing. So we’re happy to see that the talks are progressing. Now, that could change – you know, that could change by Friday in this administration’s world. But that’s where we are.

MR. SCHWARTZ: So your members, they’re both urban and rural.

MR. LUSK: Right.

MR. SCHWARTZ: I think you have members all over the country, pretty much every district of every member of Congress? Is that right?

MR. LUSK: That’s correct.

MR. SCHWARTZ: So is there a difference in the way some of the dealers are perceiving this and others? You mentioned some of them think, well, this is the president. It’s a negotiating strategy. He’s a good negotiator. He’s going to get us the best deal? Do they all feel that way?

MR. LUSK: I think on the whole, most auto dealers are businessmen and say, hey, this is – sausage making isn’t pretty. The president is a business guy. You know, don’t pay attention to every little tweet that he sends out. He’s just trying to, you know, bluster and get the best deal. Now, again, these are people that are out there, you know, selling cars, trying to make a living, you know, throughout the country. They’re not tuned into to every, you know, nuance of trade policy that’s going on. That’s our job. But I will say we’re probably far more alarmed about this than our average members is because, you know, we’re paid to be alarmed. I mean, this is what we do. We’re the early warning system.

But I think a lot of it falls into where you are politically. Did you support the president? Then you think that, hey, I’ll give him a little line on this. And that’s where, I think, sort of Congress is to some degree. And if you were opposed to him, you hate everything that he’s doing as it relates to trade.
MR. SCHWARTZ: Does he view trade as a weapon, Scott? Is it an instrument for foreign policy or a weapon?

MR. MILLER: Certainly. I think his view is – and this is – this is at least one interpretation. I think it’s the Larry Kudlow interpretation most recently. Tariff threats and tariff actions are an instrument. They’re used as an instrument to get a better deal. And you’ll note – I mean, Bill picked a great week to be out of town because the Winder Building is a busy place this week. (Laughter.) We have – we have delegations from Europe, Japan, Mexico, and China in Washington this week. So he is getting people’s attention. The key is – there are not many things that have actually been resolved in a way that kind of makes for – we can make sense out of the policy. And so I think probably it would be appropriate to tie up some loose ends. But he shows no inclination to do that. So we’re going to have to ride this out.

MR. SCHWARTZ: Cody, you’re paid to be alarmed for your members. When I think of your members, I think of Buddy Garrity from Friday Night Lights. Buddy Garrity was the dealer in the town where, you know, everybody looked up to him because, you know, he was the guy who – the big booster of the team. Is Buddy Garrity worried? Are the people on the ground worried? Are they – are they starting to feel this?

MR. LUSK: I think not at this time. I think – but you’re talking about a combination of things. They’re going to start getting worried from the standpoint of July wasn’t a great month. So what does that mean? Are interest rates starting to trickle up? OK, yeah. What does this mean? Are sales starting to slow? Well, why is that? And so you start – all of these sort of random clouds in different areas create one big cloud that I think is – you know, darkens everything. And that’s when they really start paying attention. And I think that’s the – that’s the dynamic that you’re going to see is, hey, are my profits going down? Or are the manufacturers tightening the margins where I’m making less per vehicle sold?

You know, that’s – those are the alarm bells that start going off. And I think you’re starting to see that, just from the standpoint of we’ve been on a – riding a pretty good – since ’08, you know, we’ve been trending in a pretty good – 17 million-unit market’s pretty big and pretty good. However, when you start leveling off or maybe going a little bit down, then it sends off some alarm bells.

MR. SCHWARTZ: When you talk to the administration about your concerns, what do they tell you?

MR. LUSK: (Laughs.) Well, we’re running out of people to talk to that really want to understand this side of the industry. And I think that’s –

MR. SCHWARTZ: Is that right?

MR. LUSK: That’s the reality. I mean, well, I mean, because the 232 is the Commerce – it’s in the commerce arena, and everything else is NAFTA, it’s really hard. I mean, and no question we’ve lost some people that were much more receptive to having an open-minded discussion about the benefits of trade policy. And some of those – you know, you had – you had Everett, and Gary Cohn, and these type of people that have headed out. And, you know, you have another guy, you know, like Navarro, who thinks that it is the 1980s and that really the international automakers aren’t building cars in America. It’s just a – you know, a turn-key and a screwdriver operation.
And you know, my guys take great pride in the fact that their manufacturers build – or, they sell about – build about half the vehicles that they sell in the U.S. And that’s a symbol of great pride for them. And we used to – we used to – when I first was in this industry 20 years ago, we had a poster of what is an American car? And it highlight the Accord, made in Ohio. And the Camry was in Kentucky. Well, now you’d fill a whole billboard with all of those vehicles. You can’t put it on a poster anymore. And that’s a good thing. And I think what we’re trying to – and you’ve seen that highlighted in a lot of the ad campaigns that manufacturers have, and Mercedes in Alabama, and –

MR. SCHWARTZ: BMW in Spartanburg.

MR. LUSK: BMW in Spartanburg. I mean, it’s great for what has happened. And, again, I just – you know, Kia was talking about their plant in West Point, Georgia. That was a failed – you know, a dying former textile town. And then Kia came in there. And I went there when they opened that plant. And it was – the governor was there. Talk about Friday Night Lights. They had the high school band playing. I mean, the whole town was energized. And they love what that’s done. And that’s a great story.

MR. SCHWARTZ: Well, that’s the thing –

MR. LUSK: We’ve tried to frame this from the standpoint, even going back to the early – we were going to, you know, get out of NAFTA because it was so terrible. And we were kind of trying to frame this for the president to say, actually, on autos, it’s been a win. Claim credit, President Trump. Look at what the auto sector has done.

MR. MILLER: Right. Declare victory while you can.

MR. LUSK: Declare victory. This has been great. And it’s still going on like this. And in some instances, he has. You know, he mentioned in this State of the Union the Toyota-Mazda joint venture, that they’ve got a new plant coming online. I don’t remember a president mentioning an international nameplate plant in any State of the Union before. So he does recognize some of that. But we want him to understand what this means to the entire U.S. economy – that it is globally integrated, and it has been great for America, and it’s been a win for American consumers.

MR. SCHWARTZ: Well, because one thing we didn’t even talk about yet is in addition to those cars being assembled in America, the parts – the parts industry. I mean, in Spartanburg, South Carolina, where BMW is – and it’s BMW’s largest plant in the entire world – there’s another 200 companies that have moved to South Carolina to support and be around – and these are companies that have moved from other countries and give Americans jobs.

MR. LUSK: Right. Right. And also, that’s the biggest – the biggest exporting plant in the U.S. is that plant.

MR. SCHWARTZ: That’s right.

MR. LUSK: And that’s being hit now by our tariffs on China. So this is – you know, you talk about the boomerang coming around. And your – our guys, our manufacturers are really the ones that are using the U.S. as an export platform, much more so than the Detroit guys, because that’s really not in their DNA. They used to build – they never really exported to Europe. That’s why this whole EU
car tariff was – sort of came out of nowhere and you really heard no objections. Ford and GM have had plants in Europe since, you know, before World War II. That was part of their strategy.

MR. SCHWARTZ: You know – you know where BMW exports a lot of BMWs? Bethesda, Maryland. (Laughter.) That’s where they export a lot of BMWs. You see more BMWs per capita in Bethesda, Maryland than I bet anywhere in the entire world. (Laughter.)

MR. MILLER: But Henry Ford was making Model Ts in the United Kingdom in 1920. So these have been global companies for a long time.

MR. REINSCH: Cody, let me ask you a question. Let’s assume the tariffs go into effect, OK? Twenty-five percent tariffs on all imported cars, just hypothetically at some point. What do you think companies like BMW and Mercedes and the Japanese companies are going to do when that happens?

MR. LUSK: Well, I think inevitably – you know, it depends on how their suppliers – you know, you’re talking about all the parts that go into that, or a lot of those, with the 25 percent tariff? I mean, it’s every vehicle in the U.S. is going to get hit, to some degree, with this because there’s nothing that is 100 percent U.S. with 100 percent U.S. parts. So everything is going to go up pricewise. Now, again, I think that’s a question of do they – do some – it depends on the financial situation of a lot of these manufacturers. Do they – do they eat some of that tariff? Do they pass it on? Inevitably, what we see when this happens is, you know, my guys are going to have to pay more for the car they’re buying from BMW. So and that inevitably is going to get passed on to the consumer, or not.

The consumer – you know, your average car right now is about $35,000 – average. So you’re starting to see the price point for, you know, what Americans are paying when they finance a vehicle, your monthly payment, is pretty high up there. And that was the issue we were having with the steel and aluminum tariffs. You add 10 to 15 bucks a month, I mean, it’s real money for consumers trying to make a car payment. That’s the great unknown, but we know that the negative consequences are going to be – are huge. And it’s going to be a real drag, not just on our sector but the whole U.S. economy.

MR. REINSCH: It seems to me that the underlying administration desire here is to get companies to alter their supply chains to bring more production back onshore. It’s a return to the ’50s, basically. You know, and it’s a return to what Scott said: Let’s make it all here. And then if we ship it overseas, that’s fine. But let’s make it here. So what he really wants to do is force companies to change their supply chains. But it seems to me that in this kind of situation if you’re BMW it’s probably easier just to move your production offshore and export from there than it is to try to, you know, reconfigure everything you’re doing here.

MR. LUSK: Well, you also have to figure out, where does NAFTA fit into this whole thing? Most of the imports that come into the U.S. are from the NAFTA countries. And you know, for sake of the auto sector and really the Detroit guys, Canada’s been the 51st state for forever.

MR. MILLER: Yes.

MR. SCHWARTZ: Absolutely.

MR. LUSK: And so, you know, Mexico is an export platform for all of these manufactures. And guess why? Because they have so many FTAs. And so, you know, it’s much easier if you’re – you know, Audi’s got a plant over there. Now, they import some of those here, but they also export
those around the globe. And depending upon the model. So that’s a – you know, what – it all – this all fits together, and it’s all worked together very, very – you know, these guys all share suppliers, they all work hard. And that’s the problem. And I know that the manufacturers have tried to get through to the administration. It’s not like I can say, OK, I can’t have Andrew be my suppliers because he imports stuff. I’m immediately going to go to Scott and get my seats from him. That’s not how it works. And it’s much more complicated than that. The quality and the level that they go through to get these parts and get them OK, get them to build, is very, very – a lengthy process.

MR. MILLER: Well, the administration is longing for an obsolete business model.

MR. LUSK: Right.

MR. MILLER: And the model is obsolete for a reason. And they haven’t figured that out yet. (Laughter.) But, look, Cody, you are a longtime veteran of Capitol Hill. And two things: One, you have a unified industry opposed to something. But as you well recall, it’s hard to oppose something if you have nothing. You can’t beat something with nothing. So what’s the “something” from the auto industry? What is it that you want to do and can use your influence to –

MR. LUSK: Well, I think – you know, I think what we’ve always said is, you know, look, if we’ve got a problem – I mean, this goes back to TTIP. (Laughs.) It goes back to, you know, some of the other agreements. You know, the TPP. If we’ve got issues, we solve these through negotiation. I mean, if we have a problem, you know, with the EU’s car tariff then, you know, I think Volkswagen – and they’ve already made the proclamation. You know, the German automakers said, yeah, let’s reduce the car – let’s reduce that if that’s going to be a problem. But you negotiate this stuff out. That’s the reason we have USTR who – you know, they do good work. They’re the most overworked agency – (laughs) – I would say, you know, pound for pound, in the – in, you know, our government. But that’s how you do it.

MR. MILLER: Well, it used to be that’s the way you approached things. If tariffs were a problem, they’d be developed into the list and the next negotiation – whether through the GATT or a bilateral, you take up that issue. And it’s not clear to me that anybody’s really ever asked for lower auto tariffs.

MR. LUSK: Well, no. And I think – but the – and the issue is, you know, the EU, you know, bless their heart, but that’s not the auto market that everybody’s concerned about.

MR. MILLER: No, not at all.

MR. LUSK: You know, it’s – the U.S. is, you know, a huge auto sector. And what makes us unique is our love for trucks. I mean, that’s the unique dynamic about the American auto economy is, you know, we’re 70 percent truck versus 30 percent cars. And the Detroit guys want to make nothing but trucks, because that’s where the profits are. And I can’t blame them for that. But they’ve left the car market. So the rest of the country is not really truck market. So that’s just the reality of the situation. The other market that is – you know, the other big – real big market is China. So if we want to get into China, we – I think, you know, everybody on Capitol Hill has universally agreed that China is a problem. So let’s focus our efforts on China, let’s negotiate some of this stuff out. But that’s the reality. You get to – yeah, let’s work through these. (Laughs.)
MR. MILLER: Right. Let’s – if you want to negotiate things, let’s negotiate them. Stop picking fights with our friends and focus on what’s really important.

MR. SCHWARTZ: Well, and President Trump’s starting to get some heat from people in the Republican Party over this. Is that right?

MR. LUSK: I think Congress is wanting to see some results. In other words, we’ve – it’s OK to say you’re using the stick instead of the carrot, but inevitably you have to get something out of using the stick. And so I think they were – they were quick to praise the EU, you know, handshake, you know, let’s agree to keep talking deal, just because it was something positive to grasp onto. And I think that’s what you’re seeing, is Congress is – you know, the ag guys – you know, those are the ones that are really starting to feel the heat. The aluminum, the steel producers, and the ag guys who are suffering the retaliatory aspects of this. And that’s going to, you know, increase even more. And I think that’s where the heat gets turned up. You know, Congress is just saying, hey, Mr. President, we understand you’re trying – what you say is right, or what you’re saying. But let’s have some fruits of the labor.

MR. SCHWARTZ: Yeah. I mean, you keep seeing, though, that – and you guys said during this podcast – they want to go back to the ’50s. They want to go back to the ’80s. What’s that all about if it doesn’t work?

MR. MILLER: What they haven’t encountered is the fact that if you want to be – have a 1950s workplace organization and industrial organization, you get 1950s living standards, all right? And –

MR. SCHWARTZ: Nobody wants those.

MR. MILLER: Nobody wants that.

MR. SCHWARTZ: Because no one was really living that well in the 1950s.

MR. MILLER: That’s exactly – that’s exactly right. (Laughter.)

MR. SCHWARTZ: I mean, maybe June and Beaver Cleaver were living OK, but I want a little nicer –

MR. MILLER: It looked nice, but that was a 19-inch black-and-white TV set.

MR. SCHWARTZ: That’s right. It’s not a big flat screen.

MR. MILLER: Right. And a one-car garage.

MR. SCHWARTZ: It’s not – and a one-car garage. And it’s not – you know, you buy your kid an SUV when they get – when they graduate from college. And it’s not – it’s none of that.

MR. MILLER: Right.

MR. LUSK: Well, I think that was what – and I think you saw in Navarro’s comments of, yeah, they want us to focus on, you know, our services sector when we need those great, you know, jobs in
the furnace. And you know, kind of like, wait a minute, we really don’t want these good jobs, you
know, in a furnace. I don’t know.

MR. MILLER: We make a lot more stuff than we ever did –

MR. LUSK: You know –

MR. MILLER: You know, and we make with fewer people because we’re a high-tech
economy.

MR. LUSK: And I think that’s the nail on the head, is automation has been responsible for –
and progress has been responsible for a lot of those jobs that have gone away in a lot of those
industries, that now they’re trying to in their minds rescue or return to the glory days. But to be fair to
Scott’s point, they have made it clear that – and I think the president does believe – they want as much
if not everything sold in the U.S. to be built in the U.S. That’s the dream. Now, that isn’t – can’t be
reality. But that’s the – (laughs) –

MR. MILLER: But nobody in – nobody who actually operates a business actually shares that
dream. And that’s the disconnect that we have yet to really see come to the fore.

MR. SCHWARTZ: Bill, do you have anything to add to this? Because I’m just – I’m
mystified here. I mean, 1950s kind of sucked. (Laughter.) You know, like, this is not good. I mean,
forget about whether you support –

MR. REINSCH: You’re too young to even remember the ’50s, Andrew.

MR. SCHWARTZ: I am, but I watched a lot of TV.

MR. MILLER: Right. (Laughs.)

MR. LUSK: He’s more of a “Brady Bunch.”

MR. REINSCH: Some of us grew up in the ’50s, and it was a halcyon time.

MR. SCHWARTZ: That’s right. You got it. You got it.

MR. REINSCH: It was a halcyon time, you know? “Leave it to Beaver.” “Father Knows
Best” – a personal favorite, being the father of children.

MR. SCHWARTZ: “My Three Sons.” I’ve got three sons.

MR. REINSCH: Yeah, indeed. Well, that was more ’60s. But Scott’s right. You know, you
can’t – it’s a variation of what Thomas Wolfe wrote. You can’t go home again. We can’t go back to
that. And the consequences of doing it are significant. And I guess what frustrates me about this
whole thing begins with what – where Cody began, really, which is this is a solution in search of a
problem. You know, nobody wants to do this. Nobody, except, you know, the president and Peter
Navarro. And everybody else thinks it’s crazy.
Yet, it keeps going, you know? It just rolls along. And the difficulty is that there’s collateral damage. You know, the things that Cody’s talking about are happening. And other people are suffering. Jobs are going to disappear. And, you know, so a year from now, if he goes forward with all this stuff, there’s going to be all this damage. And people are going to say, oh, well, that was a mistake. But at that point, it’s going to be a little bit too late. I guess what frustrates me is, in a way, what Cody said: Why aren’t – why aren’t his guys more upset about this than they are?

MR. LUSK: Right. You know, my guys – as was mentioned earlier by Andrew – you know, we spent a lot of time over the August recess. We had a program we call our congressional dealer visit program where we bring members of Congress out to sort of touch and feel what’s going on in, you know, an auto sector, so they can see that, you know, cars are complicated, there are computers, there are – these are – the technicians are really good jobs that we have a shortage of, you know, these kind of things.

But when I talk to the member and say, hey, I’m really concerned about them, the member says, hey don’t worry. It’s going – you know, this is just the president doing his thing. You know, that’s what we’re getting out of Congress. And so my – you know, if I’m back in Peoria, Illinois, talking to my Congressman. And he’s telling me, hey, this is – just be patient. The president’s doing deals. I’m – you know, I’m – because that’s an easy thing for me to go, OK, I can rest easy, as opposed to worry. Now, I do think that there is a deep-seated worry about, hey, we’re starting to see some storm clouds. We’re starting to struggle.

What happens if this does hit? And this would be catastrophic. So I think there is an element – and we’re certain educating our members on a daily basis about what’s going on on this, how devastating this could be. There’s plenty of studies that are out there. The industry, again, is unified for the first time in a long time really across the board from every segment of the auto sector in to say this is – you know, we’re opposed to this, so.

MR. SCHWARTZ: Well, I hope all 10,000 of your members listen to this. And, you know, I’m sure that their patience actually has a limit at some point.

MR. REINSCH: Yeah, do you think the storm is going to break before the election, or it’s going to take longer than that?

MR. LUSK: Well, I think – you know, we’ve heard varying – I think all of us thought the way that – you know, we’re following the steel and aluminum roadmap. You know, so – and what the president said he wanted. And I had always used the analogy of, hey, the president wants this arrow in his quiver. So Ross’ job is to give the president this arrow. What the president does with it – does he wave it around? Does it put it in the bow? Does it aim it people? You know, or does he actually shoot anybody? We don’t know. But we thought he was going to get that sooner rather than later.

We do know that there has been pushback on – from Capitol Hill at pretty high levels saying maybe, Mr. President, this is not the best thing to do prior to the election, from a Republican House standpoint. Yeah. So let’s not – you know, you might be right, but let’s not – let’s not throw this thing in there, that we’re dealing with enough on our plate right now. And that’s sort of, you know, I think, where we are. I – you know, again, I don’t know that you’re ever going to change this president’s mind. But, you know, maybe there’s other things that are occupying his attention that can get him off of that. And I think there is a real world – as you highlighted – there is a real work workable issue from the standpoint of manpower in the Department of Commerce on getting a real conclusion that
they then – you know, and also, don’t forget about, you know, the Department of Defense has to sign off on this, you know. (Laughs.)

MR. SCHWARTZ: Sure, if it’s a national security issue.

MR. LUSK: And they can, you know, do what they did on steel and aluminum. But I think this is much harder when the entire domestic auto industry says: We disagree. This is a terrible idea.

MR. REINSCH: Well, when he pulls his arrow out, I hope he doesn’t shoot you.

MR. LUSK: (Laughs.) Nobody wants to get shot.

(Music plays.)

MR. SCHWARTZ: To our listeners, if you have a question for The Trade Guys, write us at TradeGuys@CSIS.org. That’s TradeGuys@CSIS.org. We’ll read some of your emails and have The Trade Guys react to it. Thank you, Trade Guys.

MR. MILLER: Thanks, Andrew.

MR. REINSCH: Thank you.

MR. SCHWARTZ: You’ve been listening to The Trade Guys, a CSIS podcast.

(END)