

July 23, 2013

Chairman Lee Terry
Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing,
and Trade
2125 Rayburn House Office Building
Washington, DC 20515

Ranking Member Jan Schakowsky
Committee on Energy and Commerce
Subcommittee on Commerce,
Manufacturing, and Trade
2322A Rayburn House Office Building
Washington, DC 20515

Re: Statement for the Record

Dear Chairman Terry and Ranking Member Schakowsky:

The Association of Global Automakers respectfully submits this statement for the record in connection with the Subcommittee's hearing on July 24, 2013 entitled "The U.S.-EU Free Trade Agreement: Tipping Over the Regulatory Barriers."

The Association of Global Automakers represents international motor vehicle manufacturers, original equipment suppliers and other automotive-related trade associations. These companies have invested \$46 billion in U.S. based production facilities, directly employ more than 90,000 Americans, and sell 43 percent of all new vehicles purchased annually in the United States. Our members operate more than 260 production, design, R&D, sales, finance and other facilities across the United States.¹

As a general matter, Global Automakers supports the expansion of international trade and endorses negotiations toward that objective, including the proposed Transatlantic Trade and Investment Partnership (TTIP) negotiations. We agree with Former Acting United States Trade Representative Demetrios Marantis that, "An ambitious, comprehensive, and high-standard TTIP can generate new business and employment by significantly expanding trade and investment opportunities in the United States and the EU."² As detailed below, we believe the TTIP can promote economic growth, increase jobs, and enhance the global competitiveness of U.S. and European producers – both in general and within the automotive sector in particular - through regulatory convergence, mutual recognition, the elimination of tariffs, and other facilitation measures. In 2012, U.S.-EU trade in motor vehicles and auto parts totaled approximately \$57 billion, accounting for 9 percent of total bilateral trade of \$646

¹For more information on Global Automakers, visit www.globalautomakers.org.

² March 20, 2013, letter from Acting U.S. Trade Representative, Demetrios Marantis, to U.S. House of Representatives Speaker, John Boehner, found here:
<http://www.ustr.gov/sites/default/files/03202013%20TTIP%20Notification%20Letter.PDF>.

billion.³ Given the significance of this sector in bilateral trade, provisions that expand automotive trade are fundamental to delivering the potential benefits of a TTIP. Global Automakers believes the measures outlined below will help meet this objective.

The TTIP should eliminate tariffs on automotive products

Tariffs on passenger vehicle imports are 2.5 percent in the U.S. and 10 percent in the EU. Tariffs on trucks and buses range from 2 percent to 25 percent in the U.S. and from 16 percent to 22 percent in the EU. The elimination of these tariffs would facilitate bilateral trade and enhance the competitiveness of U.S. and European-made products. Global Automakers therefore supports the immediate elimination of tariffs on motor vehicles and auto parts.

The TTIP should provide regulatory convergence for the automotive sector

The United States and EU maintain significantly different regulatory regimes for the automotive sector, not only with respect to safety and emissions requirements, but also for testing, certification, reporting and recordkeeping. Complying with both regulatory regimes is quite costly for automotive producers. Regulatory convergence through the TTIP would simplify global sourcing, production and sales, and would significantly reduce costs and redundancies for automotive manufacturers.

Global Automakers strongly believes the TTIP should create a process to harmonize, to the extent possible, U.S. and EU regulations in the automotive sector. This would comport with one of the key TTIP objectives identified by the Obama Administration of “reducing costs associated with unnecessary regulatory differences and facilitating trade.”⁴ While we recognize the U.S. and the EU have sovereign interests that must be respected, we believe the TTIP should establish that, as a general principle, regulatory policy should be grounded in a scientific approach and promulgated in a transparent manner, through a process that includes outreach to, and input from, private stakeholders.

Global Automakers recommends the following tripartite approach to achieve regulatory convergence:

- *Part 1:* During the TTIP negotiations, mutually recognize existing U.S. and EU requirements in the following high priority areas:

³ Automotive trade data from U.S. Department of Commerce, U.S. International Trade Commission and Eurostat, as cited in “U.S.-EU Automotive Regulatory Convergence: Joint U.S.-EU Industry Presentation, U.S.-EU High Level Regulatory Cooperation Stakeholders Forum,” April 10-11, 2013, by the European Automobile Manufacturers’ Association and the American Automotive Policy Council; total U.S.-EU 2012 trade from “Foreign Trade – U.S. Trade with European Union,” www.census.gov/foreign-trade/balance.

⁴ USTR TTIP notification letter to Congress, March 20, 2013.

- Child restraint systems (FMVSS 213/225/UN ECE Reg. 14,16, 44);
 - Fuel system integrity (FMVSS 301/ UN ECE Reg. 34, 94, 95);
 - Heavy duty vehicles emissions (EPA 2010/Euro VI/GTR 4);
 - Light duty vehicle emissions (EPA Tier 2/3 / Euro 5 and 6);
 - Occupant crash protection (FMVSS 208/UN ECE Reg. 94);
 - Occupant protection for interior impacts (FMVSS 201/UN ECE Reg. 21);
 - Side impact protection (FMVSS 214/UN ECE Reg. 95)
 - Tire pressure monitoring systems (FMVSS 138/UN ECE Reg. 64) ; and
 - Bumper Standard (FMVSS 581/UN ECE Reg.42).
- *Part 2:* Given the ambitious schedule for negotiating the TTIP, Global Automakers recognizes it may not be possible to complete the mutual recognition process for all existing automotive regulations during the course of the negotiations. To address any remaining regulatory issues, negotiators should lock in a clear and transparent process to continue work on convergence, even after the negotiations have concluded. To do so, the TTIP should create a standing forum for consultations and should, at a minimum, require regular consultations between U.S. and EU officials. As part of this ongoing process, there should be active outreach to U.S. and EU automotive producers to ensure their input.
 - *Part 3:* The TTIP should include a provision whereby the Parties mutually recognize each other's testing, certification, reporting and recordkeeping requirements for the automotive sector. In other words, if a company meets the relevant standards in one Party, it should be deemed to meet the standards in the other, allowing its products to be sold in both markets and establishing it as compliant.

The TTIP should utilize existing structures for global harmonization of future regulations

The automotive industry is highly globalized, with production and supply chains reaching across the globe and sales in virtually every market. To ensure the continuing competitiveness and compatibility of U.S. and European producers, it is essential that future regulations be channeled through global bodies such as the United Nations' Working Party 29 (WP.29). Given the complexities of the global supply chain and marketplaces, the need for global technical regulations, rather than national or regional ones, is likely to continue growing.

Global Automakers believes the TTIP should include a provision requiring the TTIP Parties to notify each other of any significant automotive regulations under consideration and to jointly evaluate whether such regulations should more appropriately be addressed in the global context. Now is a particularly propitious time to embrace such a provision, because the automotive industry is

transitioning to next generation technologies, and future models will increasingly incorporate advanced technologies. The TTIP can help pave the way towards global technical regulations, to the benefit of U.S. and European producers.

The TTIP rules of origin should allow multiple methodologies for automotive products

As noted previously, all automotive producers have global supply chains. U.S. manufacturers generally import thousands of products and source them from many countries. While similar with regard to global supply chains, each company has its own sourcing and production patterns and, even within each company, the sourcing mix differs by product line.

Therefore, to maximize the opportunity for U.S.-made motor vehicles and auto parts to benefit from the TTIP, the agreement must establish flexible rules of origin. Specifically, the TTIP rules of origin should allow multiple methodologies for determining qualifying content for automotive products - for example, as is currently allowed under the Dominican Republic–Central American (CAFTA-DR) and Korea-United States (KORUS) free trade agreements. Under these FTAs, a manufacturer may elect to use one of three methodologies: net cost (which aggregates manufacturing costs), build up (which considers the value of originating merchandise as a percentage of the adjusted value of the product), or build down (in which the value of non-originating components is subtracted from the adjusted value of the product).

These methodologies provide automotive producers with important options, allowing each manufacturer to determine the approach that best fits its systems and procedures. This enhanced flexibility significantly expands opportunities for U.S. producers by recognizing global supply chain complexities and each company’s unique operational structure. For these reasons, Global Automakers believes these three methodologies, at a minimum, should be incorporated into the TTIP.

The TTIP should facilitate mutual recognition of trusted trader status, with attendant benefits

In the post-9/11 world, supply chain security programs have proliferated. Members of Global Automakers and many other companies dedicate considerable resources to supply chain security and to compliance with the specific programs promulgated by the U.S. and EU (Customs-Trade Partnership Against Terrorism (C-TPAT) and Authorized Economic Operator (AEO) programs, respectively). While the U.S. and the EU currently have a mutual recognition agreement with respect to their supply chain security programs, implementation of that agreement relies on the efforts of the respective customs administrations; the agreement is not self-executing. Therefore, Global Automakers strongly supports the position of the American Association of Exporters and Importers (AAEI) that “companies who invest corporate resources in supply chain security programs are immediately granted ‘mutual recognition’

(i.e., are recognized and receive the benefits of ‘trusted trade’ status) by other signatories.”⁵ The immediate recognition of trusted trader status, and the concomitant extension of trusted trader benefits, offers an important, tangible facilitation benefit for the many U.S. companies (including Global Automakers’ members) that have demonstrated their strong commitment to supply chain security.

The TTIP should embrace state-of-the-art customs processes

Global Automakers believes the TTIP should include customs and facilitation provisions that mirror those in recent U.S. free trade agreements, such as KORUS. In particular, negotiators should ensure the customs chapter:

- Encourages a process of modernization of customs practices throughout the EU.
- Requires automated processes.
- Encourages use of a single window.
- Protects business confidential information.

The agreement should allow self-certification of TTIP status

To maximize the benefits of the TTIP, the process for claiming preferential status under the agreement should be as streamlined as possible. In particular, Global Automakers believes the TTIP should allow traders to self-certify that their products meet the agreement’s rules of origin. Self-certified preferential claims should be appropriately documented, and be subject to verification and audit, under provisions similar to those in recent U.S. FTAs such as KORUS and CAFTA-DR.

Conclusion

Global Automakers believes the policies outlined in this statement would enhance the competitiveness of U.S. and EU based automakers, reduce costs, and increase trade. We also believe a harmonized regulatory structure and reduced tariffs between the economies of the U.S. and EU will benefit consumers on both continents while reinforcing the stringent vehicle emission and safety standards that currently exist and that may be contemplated in the future.

We appreciate the opportunity to bring these views to the attention of the Commerce, Manufacturing, and Trade Subcommittee.

⁵ See March 19, 2013, AAEI letter to Office of Management and Budget regarding the U.S.-EU High Level Regulatory Cooperation Forum – Stakeholder Session.



Respectfully submitted,

A handwritten signature in black ink that reads "Michael J. Stanton".

Michael J. Stanton
President and CEO

CC: Members of the Subcommittee on Commerce, Manufacturing, and Trade