

# Position

## Transatlantic Trade and Investment Partnership (TTIP)

- I. Significance of the economic areas on both sides of the Atlantic
- II. Economic dimension of TTIP
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  - b) Non-tariff trade barriers
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### Core statements

#### Contacts on the subject

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#### Trading partner USA

- The American economic area is massively relevant for the German automotive industry. The EU and the USA account for 38 percent of the global automotive market and 35 percent of global automotive production.
- The United States is the second most important export country for German motor manufacturers after Great Britain. The number of cars exported to the US accounted for a share of 16 percent (approx. 613,000 vehicles) of total exports in 2014. If we do not calculate in units but in values, the US is actually export destination number one for our manufacturers, accounting for a total of 20 billion euros. If we include suppliers, exports are around 30 billion euros.

#### What TTIP can achieve

The German industry on its own could save more than one billion euros if customs duties were to be abolished. This figure would then primarily be available for investment.

- The removal of non-tariff trade barriers goes hand in hand with even greater potential savings. According to a study by Ecorys these trade barriers act like an additional duty of 26 percent.<sup>1</sup>
- TTIP will remove bureaucracy and double working practices. This would result in the US market being opened up to many European medium-sized enterprises which can often not afford to manufacture a product in two versions or which are simply scared off by the bureaucracy.
- The removal of trade barriers will further develop competition, increase the speed of innovation and provide consumers with a wider and better range of products.
- The extensive removal of customs duties, easier exchange of goods, and mutual acknowledgment of technical regulations - all this will save time and money and create jobs.
- TTIP can provide new stimulus for the multi-lateral negotiations within the WTO and help to create world trade with high quality and safety standards in the areas of product safety, sustainability and consumer protection.

<sup>1</sup> Ecorys (2009): Non-Tariff Measures in EU-US Trade and Investment – An Economic Analysis, page 24 and section 6.  
[http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc\\_145613.pdf](http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc_145613.pdf).

### Requirements on TTIP from the point of view of the VDA

- The German automotive industry is in favor of a comprehensive and ambitious Transatlantic Free Trade Agreement with the USA which will remove both customs duties and non-tariff trade barriers. Politics on both sides of the Atlantic must stay on course and drive forward the negotiations.
- Regulating authorities on both sides of the Atlantic often pursue the same objectives but using different means. Logically standards and procedures should be mutually acknowledged where an equivalent safety and protection level exists.
- Together regulations should be prepared and existing regulations revised to implement identical standards on both sides of the Atlantic.
- We are in favor of a comprehensive investment protection section. In addition to the objective of guaranteeing investment security for companies, a modern, effective and also fair system of investment protection should be established with the USA to serve as a global example. This also includes reforming the court of arbitration system.
- As far as the German automotive industry is concerned, international cooperation and trade policy under the auspices of the World Trade Organization (WTO) is still the best way to advance the removal of customs duties and non-tariff trade barriers throughout the world. TTIP should therefore under no circumstances develop a protectionist effect towards third party countries. On the contrary: successful TTIP negotiations should instead provide new stimulus for global trade policy.

## I. Significance of the economic areas on both sides of the Atlantic

In economic terms, the automotive industry plays a stand-out role in the Transatlantic context. In both the EU and the USA, there are more than three million people working in the automotive industry, for both manufacturers and suppliers. Both markets together account for 38 percent of the global volume of registrations of cars and light vehicles and represent almost 35 percent of global automotive production.

For the German automotive industry the US is its largest export partner for cars, accounting for almost 20 billion euros every year. Currently, more cars are sold to the US than to France and Italy together. The US is not just an export market for the German automotive industry, however. Over the past few years, automobile production by German manufacturers in the USA has grown by more than one-third. The vehicles produced in the USA are also being exported to Europe.

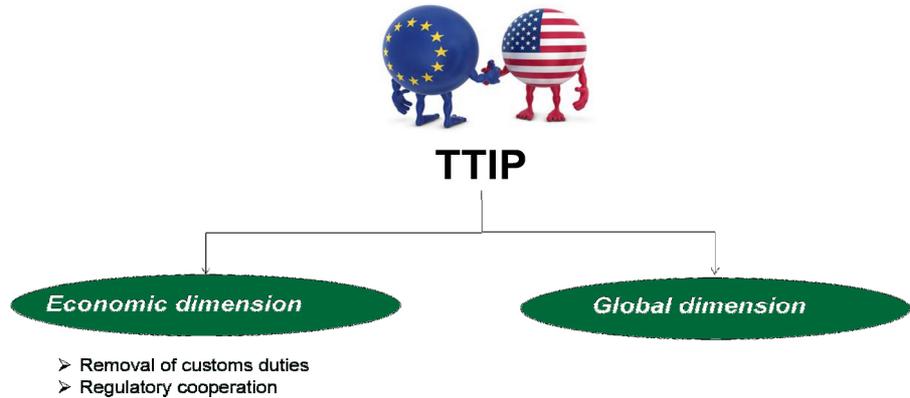
Despite this close connection, there are still considerable tariff and non-tariff trade barriers to access the market. This is why both the European and American automotive industries support closer integration and harmonization in the form of the Transatlantic Trade and Investment Partnership (TTIP).

The automotive industry calls for the existing "strategic window" for this ambitious project to be used. The focus of this is both economic and global aspects which will affect every citizen and consumer in the EU and the USA.

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In terms of export value, the USA is the most important trade partner for the German motor industry

Different dimensions of TTIP



**II. Economic dimension of TTIP**

TTIP can open up massive growth potentials for both Europe and the USA.

**a) Tariff trade barriers: Customs duties**

Duty payments by the automotive industry are enormous due to the large trade volumes involved. While the car duty imposed by the US is just 2.5 percent, the US, for example, impose a duty rate of 25 percent on light vehicles. In turn the EU imposes import duty of 10 percent on cars from the US. Overall, therefore, the removal of these duties would allow the German automotive industry alone to save more than one billion euros. These savings would not only benefit the economy but also consumers and workers because the industry would be able to invest these funds primarily in additional research and development work.

The removal of customs duties, simplifications for trading goods, and the acknowledgment of mutual technical regulations - all this means savings in costs and time for companies and consumers.

Motor industry duties in trade between the EU and US

Import duty in %	Cars	Light vehicles	Commercial Vehicles	Parts
EU	10	10/22*	22	2-5
USA	2.5	25	25	0-2.5

\* Depending on engine type, weight and displacement

Source: European Commission

**b) Non-tariff trade barriers**

In addition to customs duties, non-tariff trade barriers are extremely significant. Various regulations in the EU and the USA mean that European and American manufacturers must adapt their vehicles to the other market. But why is it not possible to license a car that has been licensed in Europe in the US as well?

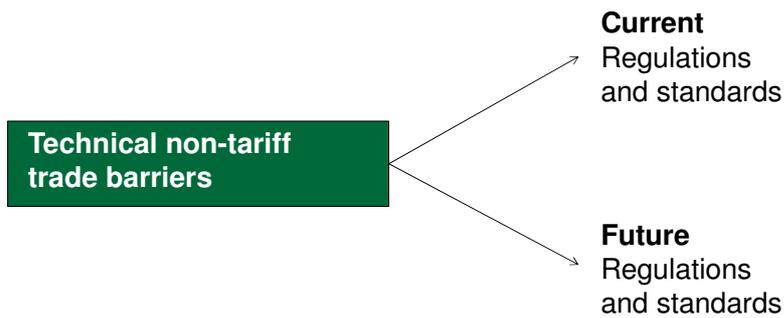
Removal of non-tariff trade barriers will particularly benefit small and medium-sized enterprises

The expensive adjustment of vehicles to the specific requirements of the markets ties up financial resources unnecessarily. The parallel developments cause costs which are avoidable; this money would be much better being invested in new technologies and jobs. Small and medium-sized enterprises (SMEs), in particular, would benefit greatly from simplified regulations and joint standards, since unlike large companies SMEs can often not afford the bureaucratic and administrative costs. They lack resources and the costs per unit for comparatively low production volumes are particularly high. At the same time double investment costs do not benefit either the environment or the consumer since the requirements in the markets are similarly high and ambitious.

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 Technical non-tariff trade barriers
 

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Source: VDA

**Current regulations and standards**

There are examples of different regulations in active and passive vehicle safety, environmental regulations and also in climate legislation. Differences in licensing regulations make this situation even starker.

Mutual acknowledgment of technical regulations is often reasonable and without problems. For example, different specifications for components such as mirrors, indicators and different tests for the braking capacity of cars are redundant. Despite the acknowledged very high standards adopted in the EU and the USA, it is still not a straightforward affair to license a vehicle manufactured in the EU in the USA. Instead numerous modifications must be made. The following are examples of these modifications:

- Controls/Symbols
- Lights (front and rear)
- Indirect vision (mirrors)
- De-icing the windshield
- Windshield wipers
- Windows
- Warning triangle
- Tire pressure control system
- Remote locking systems
- Trunk

According to estimates by Dutch research institute Ecorys (2009) conducted on behalf of the European Commission, these and other trade barriers make up the equivalent of customs duties of around 26 percent. That means that the current regulatory differences are the equivalent of imposing additional duties of this level.<sup>2</sup>

According to studies, the removal of duties and non-tariff trade barriers would result in an increase in exports on both sides of the Atlantic which would benefit both economic areas. Research institute CEPR calculated in a study that exports by the European motor industry to the USA in an ambitious scenario (100 percent duty removal, 25 percent removal of non-tariff trade barriers) could rise by up to 150 percent by the year in which full implementation were to be achieved. For a less ambitious removal of trade barriers, the institute still calculates that exports would rise by around 70 percent.<sup>3</sup>

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TTIP prevents unnecessary costs by removing double regulations.

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TTIP generates growth without lowering safety or environmental standards

<sup>2</sup> Ecorys (2009): Non-Tariff Measures in EU-US Trade and Investment – An Economic Analysis, page 48. [http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc\\_145613.pdf](http://trade.ec.europa.eu/doclib/docs/2009/december/tradoc_145613.pdf).

<sup>3</sup> CEPR (2013): Reducing Transatlantic Barriers to Trade and Investment – An Economic Assessment, page 68. 2027 has been name as the year when full implementation will take place. [http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc\\_150737.pdf](http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf).

Examples of cost-intensive changes

**Windshield wiper control lever**



EU: Mandatory symbols

USA: Text

**Side mirrors**



Different optical properties (curvature of the mirror)

Additional etched text: "Objects in mirror are closer than they appear"

Source: VDA, Adam Opel AG

These examples appear to be very minor. But in total they cause massive costs. In addition, these are those minor points that show how unnecessary double regulations really are.

The benefits of regulatory cooperation for the consumer are obvious - high standards, lower costs, greater choice of products, even higher quality and more innovation due to increased competition. Still a challenge, however, is the matter of product liability, which is treated very differently in the EU and the US.

**Future regulations and standards**

The past has shown that once regulations have been established it is very difficult to change them. It is simpler in areas in which regulations and standards are redefined. With this in mind, TTIP - as provided for in the negotiation mandate - should provide a framework for future regulatory coherence, and cast it in stone for the relevant institutions.

The automotive industry believes that there are major opportunities in closer regulatory cooperation to ensure that no more trade barriers can be created in the future. However, this must not mean putting an end to the right of the parties to a contract to formulate their own terms and conditions.

This can be demonstrated by the example of electromobility. The development of compatible technologies for vehicles and power networks not only benefits the motor manufacturers, the electrical industry and the network operators, but also consumers. And this benefit will be even greater if these technologies become a global standard. The earlier international cooperation occurs in the regulation process, the better the opportunities that trading partners will be able to agree on common ground. If, however, regulations have already developed along different routes and have become established, harmonization without mutual acknowledgment is difficult.

If the EU and the USA go forwards together, there is a chance to actively play a role in creating high quality and safety standards for all global trade instead of passively watching

TTIP ensures early cooperation on future technologies

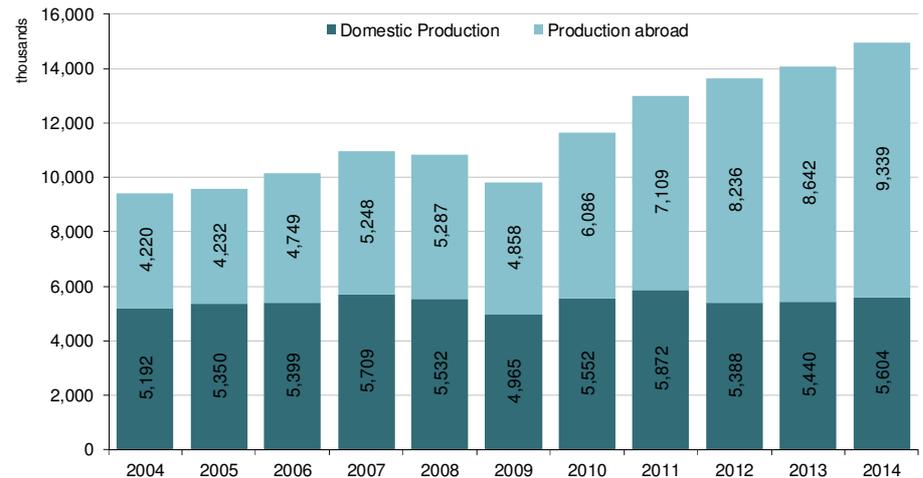
TTIP is a pioneer for future agreements

from the sidelines whilst other growth markets set new standards on their own.

**c) Investments and investment protection**

The success of the German motor industry is based on its so-called two-pillar strategy - whilst exporting from Germany, the industry has also established production plants in other countries. High overseas investment in the form of steadily growing production in other countries is the result.

Domestic and foreign production by German manufacturers



Source: VDA

Arbitration processes can ensure legal security and protect investments

These investments require protection. Even developed legal systems do not guarantee complete effective protection from discrimination. Therefore, investor-state dispute settlement (ISDS) should be part of a neutral, effective system of investment protection. Especially, small and medium-sized enterprises, which do not have large legal departments, will benefit from an arbitration mechanism of this nature.

However, the current regulations should be improved. This would include the reform and modernization of arbitration regulations and the implementation of the "Mauritius Convention".<sup>4</sup> This Convention includes rules for more transparency for investor-state arbitration. It also extends the so-called UNCITRAL transparency rules to existing investment protection contracts.

ISDS must not be allowed to result in restrictions in state's freedom of action. The parties to the contract have the facility to create clear and effective requirements for this. In view of the fact that there is plenty of potential for improving old investment protection and subsidy agreements, TTIP could define the "gold standard" for fair, secure investment protection. The inclusion of an investment protection chapter in the TTIP treaty would also be a decisive point because the rules made in it could act as a template for future treaties.

**d) Public procurement**

The European markets for public procurement are already open to both domestic and foreign suppliers. In contrast to this, a large number of states in the US can give preference to domestic suppliers over foreign ones by using exemptions from the WTO GPA (Government Procurement Act). TTIP can finally level this playing field. This will not affect the special status of public services in the EU and the right of member states to maintain local authority monopolies.

<sup>4</sup> UNCITRAL, the United Nations Commission on International Trade Law, passed a set of transparency rules for investor-state arbitration on 11 July 2013. In its capacity as a full member of UNCITRAL, the German government was actively involved in drafting the new UNCITRAL transparency rules and signed the so-called Mauritius Convention on 17 March 2015.

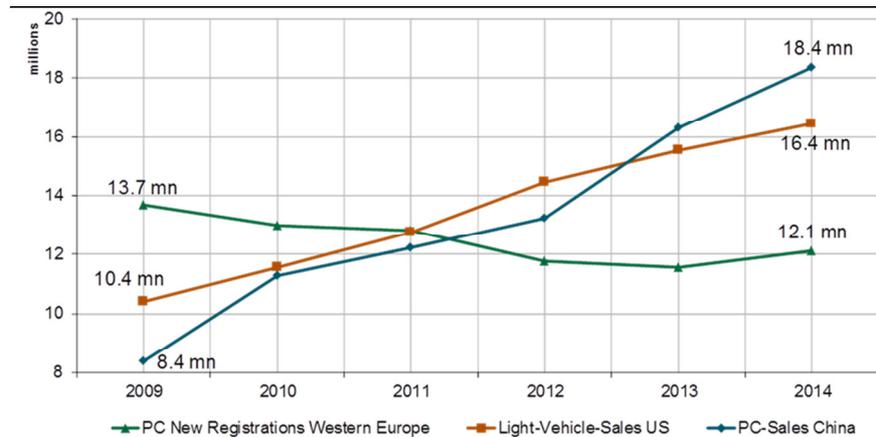
### III. Global dimension

In addition to the economic implications, the global aspects of a Transatlantic Trade and Investment Partnership are also very important. Germany is an exporting country and as such access to global sales markets is essential to it. More than 75 percent of all vehicles manufactured in Germany are exported. Growth is particularly high outside Europe.

TTIP provides an opportunity to actively promote globalization

This development is backed by the relevant figures. Over the last few years, for example, sales of cars in China have more than doubled. In Western Europe they are stagnating. The potential growth in the Chinese market is far from at an end. In 2013 there were only 52 cars for every 1,000 people in China - which has a total population of 1.36 billion. The American market, on the other hand, is almost saturated with a total population of 316 million and 799 cars for every 1,000 people.

Cars sales in China, the USA and Western Europe



Source: VDA, ACEA, Wards, CAAM

As a result of this potential for development in Asia, the existing economic centers are moving. At the same time new free trade zones are springing up all over the world, both in Asia and in the Transpacific area. With this in mind one must ask whether we wish to actively set standards in the future or simply watch on whilst the other regions of the world take on the pioneer role.

Close Transatlantic cooperation is therefore more important than ever. The EU and the USA together have populations of 826 million people out of a total global population currently of 7 billion. However, these two economic areas still account for almost 50 percent of the world's GDP. This fact can be used to create the power and ability to actively design globalization to match our values – as long as both areas work together more closely than in the past.

By 2050 the world's population is forecast to grow to 9 billion, at which point the EU will only account for 7 percent of the total population whilst Germany alone will account for less than 1 percent.<sup>5</sup> Germany needs a strong Europe and Europe needs strong Transatlantic relations to enable it to actively design the geopolitical map of the world.

Finally TTIP can have a remarkable systematic effect on multilateral trade organizations if two of the largest developed economies in the world connect. Standards which apply to such an enormous economic area could be used as a template for other regions and adapted to their needs.

<sup>5</sup> United Nations: World Population Prospects – The 2012 Revision. <http://esa.un.org/wpp>.



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