Trade policy priorities
of the German automotive industry

Berlin, June 2011
## Contents

Summary ......................................................................................................................................... 3

1. The importance of an efficient trade policy for the automotive industry ......................... 4

2. Ways to improve market access in non-EU nations ............................................................... 5
   2.1. Multilateral negotiations .................................................................................................... 6
   2.1.1. World Trade Organization (WTO) ............................................................................. 6
   2.1.2. United Nations Economic Commission for Europe (UNECE) ............................... 7
   2.2. Bilateral negotiations ......................................................................................................... 8
   2.2.1 South Korea ................................................................................................................ 9
   2.2.2 India ............................................................................................................................ 10
   2.2.3 ASEAN ...................................................................................................................... 11
   2.2.4 Mercosur ..................................................................................................................... 12
   2.2.5 Central America – Colombia, Peru ........................................................................... 13
   2.2.6 Canada ....................................................................................................................... 14
   2.3. Intensifying bilateral cooperation .................................................................................... 15
   2.3.1. USA ........................................................................................................................... 15
   2.3.2. Japan ........................................................................................................................ 16
   2.4. Unilateral measures .......................................................................................................... 17

3. Outlook ...................................................................................................................................... 17
Summary

Trade barriers such as high tariffs and nontariff obstacles in non-EU nations (e.g. special technical regulations) complicate and hinder exports from Germany and discriminate against our location for production. These trade barriers must be further dismantled to create a fair environment and preserve and improve the competitiveness of the German and European automotive industry.

In this process, trade policy must be part of an industrial policy oriented towards the private sector. Growth on the international markets is essential for European industry to secure domestic employment. Local innovative expertise must be purchased globally. In Germany alone, every other job is in an export-oriented industry. German companies make around one third of their sales through trade with foreign partners. Trade barriers to exports accordingly pose a threat to domestic production and employment.

A focused and efficient trade policy must accordingly be an integral part of the “EU Strategy 2020” – a strategy for intelligent, sustainable and integrative growth. It is important in this context for the EU to focus more on the economic interests of companies in its trade policy decisions. Earning a return on investment is a precondition for securing and expanding employment, generating innovations and technological progress, and ultimately promoting our common welfare.

The Federal German Government and the EU can support these goals.

- The Doha Round should be brought to a successful conclusion – for all involved. This includes ambitious and balanced tariff reductions in industrialised and emerging nations, to achieve significant improvement in access to all markets and create a fair competitive environment.
- As a flanking measure, bilateral free trade agreements should be reached with important future markets (e.g. India, ASEAN, Mercosur).
- Bilateral processes to improve trade relations and eliminate barriers should be effectively supported (e.g. USA, Japan, Russia).
- Global work within the framework of the UN Economic Commission for Europe (UNECE) must be pursued further.
- If necessary, unilateral – i.e. one sided – measures must be taken, should these help improve framework conditions (e.g. reducing tariffs on raw materials).
1. The importance of an efficient trade policy for the automotive industry

Free trade is a central prerequisite for the success of the German automotive industry with its global orientation. Products and services from Germany have a high reputation worldwide and are in corresponding demand.

- The automotive manufacturers in the VDA export three of every four cars made in Germany.
- In addition, in 2009 the VDA member companies for the first time manufactured more vehicles abroad than in Germany. In 2010 the gap was even greater: some 6.8 million (2009: 5.23 million) vehicles were manufactured abroad, compared with 5.9 million (2009: 5.2 million) in Germany.
- German manufacturers and their suppliers have more than 2,000 production and assembly plants abroad. The manufacturers are represented in over 70 countries.

<table>
<thead>
<tr>
<th>Foreign activities of German automotive manufacturers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car and commercial vehicle group brands in 2010</td>
</tr>
<tr>
<td>Production in Germany</td>
</tr>
<tr>
<td>of which exports</td>
</tr>
<tr>
<td>Production abroad</td>
</tr>
<tr>
<td>Total production</td>
</tr>
<tr>
<td>Unit sales in Germany</td>
</tr>
<tr>
<td>Global unit sales</td>
</tr>
</tbody>
</table>

The automotive industry is seen globally as an important strategic industry. This is why it has state promotion and often protection in many countries. High tariffs are not unusual – in some cases they are well over 50% of the import value. In certain cases there are additional levies, such as special taxes. Often specific national regulations also exist, which require expensive modifications and testing. Elaborate requirements for the import process can also complicate exports. Finally, strict regulations in many countries block investment and joint ventures.

<table>
<thead>
<tr>
<th>Examples of high protective tariffs:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import duty, car, Brazil</td>
</tr>
<tr>
<td>Import duty, car, India</td>
</tr>
<tr>
<td>Import duty, car, Thailand</td>
</tr>
</tbody>
</table>

This is why the VDA consistently calls for global elimination of trade barriers, whether these are high tariffs or the numerous so-called nontariff barriers, such as discriminatory special technical regulations. Protectionism distorts markets and leads in the wrong direction, by preserving obsolete structures and failing to promote improved competitiveness.

We particularly support the multilateral approach through the WTO. Even so, bilateral and even unilateral – i.e. one sided – measures are useful and necessary. They can help respond to bilateral activities of nations with major competitors and secure market access for EU industry, particularly in the important future markets.

In our domestic market of Germany, we avoid protectionism and open the market to imports. The environmental bonus in 2009, for example, benefited all manufacturers, regardless of their production location, so that foreign manufacturers benefited as well. At the same time, however, we expect our partner countries to keep their markets open to our products, and many still need to open these significantly.
2. Ways to improve market access in non-EU nations

In the field of trade policy, the EU has common competence under Art. 207 TFEU (Treaty on the Functioning of the European Union). The EU Commission formulates trade policy in consultation with the member states. In addition, there are regular meetings of the Trade Policy Committee appointed by the Council.

Paths to free trade include multilateral negotiations (WTO), bilateral free trade agreements, intensified cross-border cooperation between individual states and organisations and unilateral measures (e.g. one-sided tariff reductions).

The German automotive industry needs a reliable environment and a level playing field in all key markets. This is why it supports every approach to reducing trade barriers.

Trade barriers can be tariff (customs duties) or nontariff in nature. One nontariff trade barrier comprises all measures which limit trade and do not involve customs duties. These may be special technical regulations, requirements for local content, or even behavioural patterns, such as regional preferences among consumers, which can act as “informal” trade barriers. In addition, any process with a discriminatory or delaying effect can be described as a trade barrier, e.g. certain technical customs administrative processes. If a vehicle cannot be delivered to the customer as desired and on time, there is the risk that the customer will decide on a different product.

Measures distorting trade can be hidden or even overt protectionism. Many trade barriers are administrative or technical in nature, and must first be revealed as trade barriers. It also depends on the commitment of the companies involved, and whether they identify an obstacle as such and then publicise it. The VDA takes up such concerns and deals with them. The question then is one of finding the optimal way and right contacts to deal with such an import barrier. Many problems can be resolved in bilateral discussions, but other barriers – such as high tariffs and taxes – mostly can only be removed through international treaties.

Protectionism is the wrong approach

The German automotive industry backs fair market access. Measures which have a protectionist effect can lead the wrong way and ultimately not benefit even those who they are supposed to protect. The VDA opposes such protectionism. Unfortunately, protectionist tendencies are always reappearing worldwide.

For example, the measures currently taken in Argentina to restrict imports are protectionist and are not in compliance with the rules of the WTO, which Argentina is a member of. Argentina has blocked some imports of vehicles informally, and there are also strict requirements for trade balance, so that imports must be offset by exports. Critical reactions by Mercosur partners also show that Argentina is violating the spirit of Mercosur by this unilateral action. As the EU is currently negotiating a free trade agreement with Mercosur, the developments in Argentina should directly affect this process. The VDA calls for Argentina to revoke these protectionist measures.
2.1. Multilateral negotiations

2.1.1. World Trade Organization (WTO)

*Background and current developments*

The World Trade Organisation (WTO) is the organisation which governs world trade and ensures that the process is as smooth, predictable and free as possible. A multilateral approach within the framework of the WTO for all 153 WTO members constitutes the most comprehensive framework for eliminating trade barriers and offers the greatest transparency.

Action through the WTO must ensure that the important future markets in the emerging nations are also consistently opened up. The different levels of development of the economies must be taken into account in this process. Suitable means for locking into the differing levels of economic development are appropriate transition periods for opening up markets, particularly with tariff reductions, possibly in combination with a clearly defined review mechanism.

Under no circumstances can entire industries or sectors or individual product groups be excepted from this – for example, by concessions on flexibility. This would create a permanent situation in which further economic development of the countries in question would lead to massive competitive disadvantages for EU industry.

It is true that the Doha Round was not successful in June 2008, after almost reaching agreement. However, there are repeated efforts to revive the Round, as activities on the fringe of the World Economic Forum meeting in Davos in January 2011 showed.

From the point of view of the German and European automotive industry, the world trade round has moved in a direction which is very dubious. While under the current status of negotiations (“July 2008 package”) tariffs in the EU would be significantly reduced, emerging nations such as India, China and Thailand or countries in Latin America which have an automotive industry that is competitive to some extent have been allowed so-called “flexibilities”. These would allow them to exempt their entire automotive industry or parts of this from future tariff reductions. This would mean that competitors would be able to offer their products in the EU on much more favourable terms, while the European automotive manufacturers and their suppliers would continue to be subject to the high tariff barriers in the growth markets, such as India and Thailand, for an unforeseeable period of time.

*VDA position*

The VDA expects a successful conclusion of the Doha Round to lead to the emerging nations also dismantling their high barriers to market access and opening their markets consistently and permanently, even if extended transitional periods are allowed. A point to bear in mind here is that the EU automotive market, with sales of around 15 million units a year, is a particularly attractive bargaining chip for export-oriented negotiating partners.

The current Doha Round has unfortunately lost sight of the so-called “Singapore issues” (public contracts, investment, trade facilitation and services), although these are still very important for creating an environment which offers both the ability to plan, and also business friendly conditions.

*The Federal German Government and the EU can support these goals and buttress them by.*

- pressing for better market access in the Doha Round for industrial products, particularly in the important future markets,
- pushing for the elimination of nontariff trade barriers in the WTO, and
- calling for reasonable limits on flexibilities.
2.1.2. United Nations Economic Commission for Europe (UNECE)

Differing technical norms and standards restrict international trade in goods and can take the nature of trade barriers. This is why harmonisation of regulations for the automotive industry is important. The UNECE has the goal of promoting economic integration of its member states. Its "Working Party 29" - "World Forum for Harmonisation of Vehicle Regulations" - is working on technical issues in the transport sector.

The VDA supports global harmonisation of technical regulations. An agreement on technical harmonisation of vehicles was reached within the UNECE framework, known as the 1958 agreement. It aims to facilitate reciprocal recognition of licensing based on international standards and to dismantle trade barriers. On 24 March 1998 the European Community joined this agreement as a bloc, after individual member states had signed it earlier.

The EU was also actively involved in negotiations for a second international agreement (the "parallel agreement of 1998"), which entered into force on 25 August 2000. The goal is to make it possible for countries to participate in global harmonisation which have not committed to the reciprocal recognition of licensing under the 1958 agreement. Global technical regulations (GTR) are developed under this agreement.

Both agreements aim to harmonise technical regulations for safety, environmental protection, drive systems and anti-theft systems. The VDA supports inclusion of as many countries as possible in these agreements.

Despite these global efforts, however, in reality there are still numerous different technical regulations which block market access and international trade. Intensified international cooperation is useful here for dismantling these barriers to the benefit of all concerned.
2.2. Bilateral negotiations

The VDA continues to support conclusion of the Doha Round, but also welcomes negotiations on a free trade agreement with partner nations, because the complex WTO negotiations are proving very laborious. In addition, countries like Japan already have bilateral agreements with important future markets. This leads to competitive advantages for our competitors in the nations involved, and to competitive disadvantages for EU industry. From the point of view of the German and European automotive industry, free trade agreements are very important, particularly with the following countries and regions:

- India,
- economically important members of ASEAN (specifically Indonesia, Malaysia, Philippines, Thailand and Vietnam),
- Mercosur.

Given the high potential of the Asian growth markets, Japan’s activities with and in these countries and the possibly limited resources of the negotiators, priority should clearly be given to such agreements. The automotive industry supports further agreements.

The German Federal Government and the EU can support these goals and buttress them by:

- focusing on industry’s priorities,
- maintaining a distinction between (foreign) policy goals and economic goals, i.e. trade policy must not be impacted by other areas of policy,
- calling for comprehensive tariff reduction (no lists of exceptions, although possibly in exchange for extended transitional periods),
- integrate the elimination of nontariff trade barriers in negotiations, including monitoring and effective arbitration and sanction mechanisms.

Besides entering into free trade agreements with selected countries, intensifying strategic cooperation with a number of countries is very important. The following countries and regions are particularly important here:

- USA (within the framework of the Transatlantic Economic Council, TEC),
- Japan (intensifying regulatory cooperation and development of a successor to the expiring 2001-2011 Action Plan),
- Russia (preventing protectionist measures, WTO membership)
- China (bilateral cooperation, preventing and eliminating trade barriers).


2.2.1 South Korea

Background and current developments
On 16 September 2010 the European Council approved the signature and provisional application of a free trade agreement with South Korea. On 6 October 2010 the agreement was signed at an EU-South Korea summit. Finally, on 17 February 2011 the European Members of Parliament (EMPs) in Strasbourg approved the EU free trade agreement with South Korea by a large majority. The EMPs also approved the text of the bilateral protective clauses in the FTA by a significant majority. Approval by the South Korean Parliament in April 2011 is regarded as certain. This would mean there is nothing to prevent provisional application of the FTA from 1 July 2011. However, certain very specific areas of the FTA on criminal and cultural cooperation would only enter into force if all EU member states also ratified the agreement through their national procedures.

VDA position
The VDA would have liked a more balanced agreement with South Korea overall. There is still a danger that nontariff trade barriers will hinder exports of German and European products. The agreement also creates one-sided competitive advantages for the Korean automotive industry. The possible disadvantages for German and European manufacturers outweigh the benefits of tariff reductions in Korea for German manufacturers and suppliers. Further important points:

1) The CO\textsubscript{2} regulation for cars must not lead to new nontariff barriers for importers. It is important in this context to create a reliable framework. After initial uncertainties, the Koreans have submitted an offer with the following key points:
   - Raise the slope from 70 to 85, recognise supplementary measures with 10 grams, additionally possible recognition of eco-innovations, manufacturers which sold fewer than 4,500 units in 2009 get a 19% reduction from the actual goal and individual goals for manufacturers below 500 units.
   The VDA expects that the CO\textsubscript{2} regulation will be implemented on the basis of the submitted draft.

2) Existing NTBs in Korea will not be adequately eliminated by the agreement in its current state, recognised high European standards (as for the on-board diagnosis) are not accepted.

3) The concessions to South Korea go too far in the view of the automotive industry and favour South Korea one-sidedly (specifically duty drawback and rules on origin). This is dubious, particularly with a view to the demands of subsequent negotiating partners in other agreements. The EU trade policy system does not recognise a duty drawback when entering into comparable agreements. This would basically be the same as subsidising exports, which previously only developing countries have been allowed to do. In addition, from today’s point of view the proposed protective mechanism is inappropriate as a long term solution for the problems and disequilibria that might emerge.

4) Advantages which the USA granted under the KORUS agreement must apply to the EU as well, on the most-favoured-nation principle.

A positive point overall is that for the first time in an EU free trade agreement a separate chapter of the agreement is devoted to the removal of nontariff trade barriers, even if it was not possible to take into account all the requirements of the European automotive industry.

<table>
<thead>
<tr>
<th>SOUTH KOREA</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>942 654</td>
<td>1 020 502</td>
<td>1 235 736</td>
<td>1 308 326</td>
<td>1 350 000</td>
</tr>
<tr>
<td>Market share of German manufacturers</td>
<td>1.6%</td>
<td>2.7%</td>
<td>2.7%</td>
<td>4.1%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Car production</td>
<td>3 357 094</td>
<td>3 450 478</td>
<td>3 158 417</td>
<td>3 866 206</td>
<td>4 050 000</td>
</tr>
<tr>
<td>Car exports</td>
<td>2 456 526</td>
<td>2 508 911</td>
<td>2 007 230</td>
<td>2 610 949</td>
<td>--</td>
</tr>
<tr>
<td>Customs duty on cars 8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Forecast
2.2.2 India

Background and current developments
The Indian market overtook the Russian market for the first time in 2009, and is an important future market for the German automotive industry. However, there are still substantial import restrictions in the Indian market in both the tariff and nontariff areas which massively obstruct market access for the German automotive industry.

In the current WTO Round, India has called for extensive exemptions for its automotive industry from tariff reductions, with the help of flexibilities. The Federal Government and European Commission are accordingly right in seeking an ambitious free trade agreement between the EU and India. This includes tariff reductions and the removal of nontariff trade barriers. A free trade agreement will also offer extremely attractive prospects to Indian exporters. Today, EU import duties are around 10% for cars and up to 22% for commercial vehicles. While India currently has even lower tariffs under the EU preference system, the proposed removal of tariffs will further improve market access to the EU.

However, negotiations with India are extremely complex. India is seeking far-reaching exceptions from tariff reductions for products of the automotive industry. The EU negotiators have pushed for a broad opening of the market, although with extended transitional periods. Currently, there are signs that compromises will be needed to conclude the agreement. From the present-day viewpoint, the Commission is seeking preferential access to the market, i.e. the tariffs on European vehicles will be lower than for vehicles from other countries.

VDA position
The German and European automotive industry supports the successful conclusion of the free trade agreement, and we particularly hope for closer cooperation with our Indian partners in reducing tariff and nontariff trade barriers.

However, import duties should be completely eliminated on both sides, and not just partly removed – although with reasonable transitional periods. This is the only solution which reflects the spirit of a free trade agreement. To give appropriate account to the difference in competitiveness, a mechanism might be considered which makes tariff reductions dependent on specific criteria (review/safeguard clause), e.g. the achievement of a certain level of production in India and/or a specific export and import ratio.

The agreement should also include the removal of nontariff trade barriers. No concessions should be made to India on the issue of duty drawbacks, as these refunds do not fit in with the EU system and would favour imports from non-EU nations. Attention should also be given to uniform rules of origin (preferential EU standard rules of origin), in order to avoid further complication of the system.

An important argument for further negotiations is that India's exports to the EU now exceed the limit for the application of a reduced tariff for developing countries (GSP), which is currently the basis for giving India reduced tariffs.

<table>
<thead>
<tr>
<th>INDIA</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>1 106 862</td>
<td>1 545 342</td>
<td>1 815 205</td>
<td>2 386 828</td>
<td>2 800 000</td>
</tr>
<tr>
<td>Market share of German manufacturers</td>
<td>0.9%</td>
<td>1.5%</td>
<td>1.3%</td>
<td>2.8%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Car production</td>
<td>1 264 495</td>
<td>1 844 062</td>
<td>2 161 375</td>
<td>2 823 275</td>
<td>3 250 000</td>
</tr>
<tr>
<td>Car exports</td>
<td>171 603</td>
<td>319 583</td>
<td>412 246</td>
<td>441 222</td>
<td>--</td>
</tr>
</tbody>
</table>

*Forecast

Customs duty on cars 60%
2.2.3 ASEAN

**Background and current developments**

The regional approach (EU-ASEAN) originally preferred by the EU and European industry for a comprehensive free trade agreement is not feasible due to political challenges. In particular, ASEAN's wish to include Myanmar is proving a problem for negotiations with the EU. While the EU supports a comprehensive approach including human rights issues, ASEAN wants to limit discussions to market access.

Against this background, the EU has now decided to conduct bilateral negotiations with selected nations. A free trade agreement with Singapore is intended to serve as a form of reference agreement, and approval has been given for negotiations, which have now started. Talks have also been officially opened with Malaysia, negotiations are planned with Vietnam and the Philippines, and Thailand also seems to be a serious partner for negotiations. The EU's goal is to incorporate these bilateral talks into an agreement covering ASEAN as a whole.

**VDA position**

Negotiations should concentrate on market access issues, and cover both tariffs and nontariff trade barriers.

Bilateral negotiations are supported with members of ASEAN. Even if an agreement with Singapore has little importance in itself for the European automotive industry, negotiations with Singapore are supported. Such an agreement can probably be entered into relatively quickly and can serve as a good reference for the other nations.

In this connection it is important to ensure that cross-cutting issues such as arbitration mechanisms, local content rules, recognition of international standards etc are covered in such a way that they apply well to all other countries and take into account both competitive and automotive considerations.

The German automotive industry welcomes the start of negotiations with Malaysia on a free trade agreement. Corresponding negotiations should also be started as quickly as possible with Indonesia and Thailand, as these are also future markets for us.

<table>
<thead>
<tr>
<th>ASEAN</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>988 573</td>
<td>1 122 452</td>
<td>1 042 380</td>
<td>1 362 414</td>
<td>1 450 000</td>
</tr>
<tr>
<td>Market share of German manufacturers</td>
<td>2.0%</td>
<td>1.7%</td>
<td>1.9%</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Car production</td>
<td>688 582</td>
<td>1 252 695</td>
<td>1 038 487</td>
<td>1 444 000</td>
<td>1 600 000</td>
</tr>
</tbody>
</table>

* Forecast
2.2.4 Mercosur

Background and current developments

Argentina, Brazil, Paraguay and Uruguay founded “Mercosur” in 1991 with the goal of establishing a customs union and common trade policy. However, integration is far less intensive than in the EU.

Negotiations on a free trade agreement between Mercosur and the EU started in 1999. The Mercosur countries are particularly calling for improved access for their export products to the EU agricultural market. In the automotive sector EU exporters face comparatively high tariffs on exports to Mercosur.

<table>
<thead>
<tr>
<th></th>
<th>Argentina</th>
<th>Brazil</th>
<th>Paraguay</th>
<th>Uruguay</th>
<th>Venezuela</th>
</tr>
</thead>
<tbody>
<tr>
<td>Car</td>
<td>35%</td>
<td>35%</td>
<td>10-20%</td>
<td>23%</td>
<td>35%</td>
</tr>
<tr>
<td>Commercial ≤ 5t</td>
<td>35%</td>
<td>35%</td>
<td>19%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Commercial &gt; 5 ≤20t</td>
<td>35%</td>
<td>35%</td>
<td>19%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Commercial &gt; 20t</td>
<td>35%</td>
<td>35%</td>
<td>19%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Bus chassis</td>
<td>35%</td>
<td>35%</td>
<td>5%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Bus</td>
<td>35%</td>
<td>35%</td>
<td>10%</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Parts</td>
<td>14-18%</td>
<td>14-18%</td>
<td>0-10%</td>
<td>14-18%</td>
<td>5-15%</td>
</tr>
</tbody>
</table>

Source: VDA, Market Access Data Base, European Commission.

From 2004 to the start of 2010 there were no further official negotiating rounds. Only “technical” discussions were held, because initially the results of the Doha Round were awaited. Negotiations were officially revived during the Spanish presidency of the EU Council in the first half of 2010.

VDA position

The German automotive industry welcomes the resumption of negotiations on a free trade agreement between the EU and Mercosur. VDA members are heavily committed in the Mercosur countries, not only through exports but also through production facilities.

VDA favours the reduction of the high tariffs, with appropriate transitional periods. Tariff reductions can be asymmetric in an agreement between the EU and Mercosur, i.e. the EU tariffs can be reduced faster than those in Mercosur. However, a level playing field should be established in the process. There must be benefits to both parties.

In addition, and particularly if a free trade agreement is negotiated, individual countries should not take protectionist measures. There are, for example, problems with the balance of trade and payments in Argentina which are supposed to be resolved through import restrictions. Some German exports are being sharply restricted, and the official rules on this are still unclear and uncertain. More legal security and liberalisation should be ensured here.

<table>
<thead>
<tr>
<th>Mercosur TOTAL**</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>1 996 168</td>
<td>3 251 948</td>
<td>3 478 816</td>
<td>3 740 000</td>
<td>4 300 000</td>
</tr>
<tr>
<td>Market share of German manufacturers</td>
<td>22.5%</td>
<td>22.2%</td>
<td>22.8%</td>
<td>21.5%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Car production</td>
<td>2 676 658</td>
<td>3 561 611</td>
<td>3 523 082</td>
<td>4 109 628</td>
<td>4 300 000</td>
</tr>
<tr>
<td>Car exports</td>
<td>771 483</td>
<td>779 466</td>
<td>613 992</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Customs duty on cars 35%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Forecast ** Inc. light trucks
2.2.5 Central America – Colombia, Peru

**Background and current developments**

After the negotiations between the EU and the Andean Community (Bolivia, Colombia, Ecuador and Peru) over an association agreement came to a halt because of differences within the Community, Colombia and Peru negotiated a free trade agreement jointly with the EU from February 2009.

In March 2010 the negotiations were largely completed. The agreement was signed at the summit between the heads of government of the EU and Latin America in Madrid on 18 May 2010.

Colombia's tariffs on cars are to be phased out linearly within seven years. Tariffs on trucks will be eliminated over a 10-year period, with few exceptions.

Colombia is planning a significant increase in the share of biofuels, and is working on a new draft in this connection. The introduction of a mandatory E85 regulation as planned by Colombia has initially been prevented. The Colombian Government presented a proposal at the start of August with a stepwise plan involving the introduction of E85 and the introduction of a mandatory E20 from 2030.

**VDA position**

The German automotive industry welcomes the agreement with Colombia and Peru.

Colombia’s specific requirements for a biofuel regulation for diesel and petrol could also affect other countries and agreements. Originally, Colombia wanted to impose mandatory requirements (e.g. an ethanol share of 85%, the “E85” regulation). This was rejected by the automotive industry, as it would result in a virtually insurmountable competitive disadvantage if not total exclusion from the market for German suppliers.

The automotive industry is still critical of the Colombian Government’s current proposal. For example, the planned band widths increase uncertainty for consumers, and the actual quality of the available fuel does not meet the requirements. The programme accordingly needs further close observation, to ensure adequate fuel quality throughout the country. Colombia also has technical standards in many areas which are incompatible with international standards.

An important issue in Peru is the import of used cars. Here, there are particularly favourable conditions for imports from Japan, which are processed in the south of Peru before being put on the market. The arrangement is due to expire in 2010, but in view of the high unemployment and associated social problems, there is the risk of an extension.

<table>
<thead>
<tr>
<th>Colombia</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>48 300</td>
<td>72 120</td>
<td>67 500</td>
<td>72 300</td>
<td>--</td>
</tr>
<tr>
<td>Market share of German manufacturers</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Car production</td>
<td>71 650</td>
<td>81 060</td>
<td>74 100</td>
<td>72 300</td>
<td>--</td>
</tr>
<tr>
<td>Car exports</td>
<td>1 537</td>
<td>4 064</td>
<td>2 630</td>
<td>1 109 (YTD)</td>
<td>--</td>
</tr>
</tbody>
</table>

* Forecast
2.2.6 Canada

**Background and current developments**

At the end of April 2009 the EU member states officially authorised the European Commission to negotiate a free trade agreement with Canada.

Negotiations started officially in October 2009 and are due to continue every three months. Six rounds of negotiations have taken place, and the next round is scheduled for April 2011. Negotiators are optimistic that they will be able to conclude an agreement in 2011. The EU sees a major challenge to be protecting commercial property rights and public procurement, the Canadians see the agricultural sector as a challenge.

**VDA position**

Removal of Canadian duties (cars: 6.1%) could significantly improve market access for EU manufacturers.

At the same time, however, there is the need to focus on regulatory issues.

For EU manufacturers, for example, recognition of UNECE standards is very important. Presently, US standards apply in Canada. While Canada is one of the signatories of the 1998 UNECE convention, it has not signed the 1958 convention.

A range of non-tariff trade barriers also need to be addressed in the agreement. The issue of rules of origin also plays a role in the negotiations.

There is a certain political risk that the negotiations will impact on acceptance of the WTO system and will increase pressure by Japan on the EU with the goal of free trade negotiations, as Canada is an OECD member.

<table>
<thead>
<tr>
<th>CANADA**</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>1 579 979</td>
<td>1 633 821</td>
<td>1 458 410</td>
<td>1 554 584</td>
<td>1 640 000</td>
</tr>
<tr>
<td>Market share of German manufacturers</td>
<td>5.0%</td>
<td>6.3%</td>
<td>7.5%</td>
<td>8.0%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Car production</td>
<td>2 622 880</td>
<td>2 047 022</td>
<td>1 479 161</td>
<td>2 062 603</td>
<td>2 160 000</td>
</tr>
<tr>
<td>Customs duty on cars 6.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Forecast  ** Inc. light trucks
2.3. Intensifying bilateral cooperation

2.3.1. USA

**Background and current developments**

Elimination of trade barriers and further economic integration of the EU and USA raise the competitiveness of the transatlantic economy. According to estimates by the Federation of German Industry (BDI), this can lead to boosting growth by over 3% of GDP on both sides of the Atlantic. The framework for advancing transatlantic economic integration between the EU and the USA agreed at the EU-USA summit at the end of April 2007 covered closer cooperation and the elimination of existing restrictions on market access. The Transatlantic Economic Council (TEC) is the committee implementing the framework agreement. This has the job of setting goals and timetables and reporting semi-annually on the results of implementation. TEC is advised by the Transatlantic Business Dialogue (TABD), a panel of over 30 CEOs of European and American companies. TEC’s goal is to create optimal framework conditions through improved cooperation between the EU and US governments.

The automotive industry plays a very prominent role in the transatlantic context. Together, the two markets account for c. 50% of the global volume of cars and commercial vehicles. However, the current situation, with partly conflicting regulations and standards in the EU and USA is not satisfactory, because both European and US vehicle manufacturers have to modify their vehicles to offer them in the other market.

**VDA position**

Long-term harmonisation for both environmental and safety aspects is very important. It is essential for both sides to commit to serious efforts to draft and adopt new regulations in the automotive sector by mutual agreement, and if possible within the framework of the 1998 UNECE convention. A central flagship project for TEC is electromobility, because electromobility is an important future technology and new standards need to be defined here (recharging interfaces, energy storage, safety standards etc). The institutions involved in standardisation on both sides of the Atlantic have to be brought together at a round table. In order to give automotive-industry issues a louder voice in TEC it is important that the industry is represented on the TABD (currently Audi and Ford).

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>16 947 754</td>
<td>13 194 741</td>
<td>10 402 215</td>
<td>11 554 576</td>
<td>12 800 000</td>
</tr>
<tr>
<td>Market share of German manufacturers</td>
<td>5.1%</td>
<td>6.7%</td>
<td>7.3%</td>
<td>7.6%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Car production</td>
<td>11 524 250</td>
<td>8 447 493</td>
<td>5 559 590</td>
<td>7 591 457</td>
<td>8 350 000</td>
</tr>
<tr>
<td>Car exports</td>
<td>1 676 725</td>
<td>1 588 076</td>
<td>755 093</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Customs duty on cars</td>
<td>2.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Forecast  **Inc. light trucks

**Sidebar: Transatlantic Zero Tariff Agreement (TAZA)**

The US Chamber of Commerce and the Confederation of Swedish Enterprise (Svenskt Näringsliv) have recently put the possibility of a zero tariff agreement between the USA and EU on the agenda. This initiative is basically a sign of the desire of US industry to strengthen bilateral cooperation between the EU and USA, in order to further expand the transatlantic market (also in comparison with the emerging nations). As such, the proposal can be approached constructively in principle. However, it should be noted that in the view of the automotive industry the emphasis in demands is on the regulatory situation and other barriers, as tariffs are not the problem in transatlantic trade. There must also be a commitment to the multilateral process.
2.3.2. Japan

Background and current developments

For the Japanese automotive industry, the EU market is very important because of its large volume. In Germany, for example, the share of imports is around 30%. Conversely, the share of imports on the Japanese car market is low at 3.6%. Although Japan does not impose an import duty, imports in Japan are still the exception.

At the same time, Japan is strongly interested in a free trade agreement with the EU, as elimination of EU customs duties could significantly improve the competitive position of Japanese suppliers. This interest has increased further following the conclusion of a free trade agreement between the EU and South Korea.

However, the German Government and the EU continue to focus on expanding cooperation in the regulatory sector. Comprehensive reductions in customs duties should preferably be negotiated within the framework of the WTO.

VDA position

Bilateral cooperation with Japan should be further intensified. However, an FTA cannot solve the challenges in EU-Japanese trade. The problems for EU manufacturers are not the customs duties (these are 0% across the board for the automotive sector in Japan), but rather nontariff or even informal and cultural barriers to trade and market-specific characteristics. For example, specific testing regulations for emissions, specific emission standards and unique safety regulations often mean that current models of German manufacturers cannot be marketed in Japan, even though they meet similarly high international standards. At the same time, however, Japanese competitors can benefit greatly from a reduction in EU customs duties (cars 10%, buses 16%, commercial vehicles 22%).

Japan is also an important partner in the World Trade Organisation and the Doha Round. Because of its high importance for the global economy, a bilateral free trade agreement between Japan and the EU could reduce the prospects of achieving comprehensive reductions in customs duties within the framework of the Doha Round. Negotiations on lowering customs duties in particular should accordingly be conducted at the WTO level.

From the perspective of the German automotive industry, bilateral discussions between the EU and Japan should not include customs duties, but should focus further on regulatory cooperation. Besides basically opening the market, this includes issues such as technical requirements, recognition and harmonisation of international standards, acceptance of diesel vehicles, taxation and even market stimulation.

<table>
<thead>
<tr>
<th>Japan</th>
<th>2005</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New car registrations</td>
<td>4 748 410</td>
<td>4 227 643</td>
<td>3 923 741</td>
<td>4 212 267</td>
<td>3 800 000</td>
</tr>
<tr>
<td>Market share of German</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>manufacturers</td>
<td>4.1 %</td>
<td>3.9 %</td>
<td>3.2 %</td>
<td>3.4 %</td>
<td>3.7 %</td>
</tr>
<tr>
<td>Car production</td>
<td>9 016 735</td>
<td>9 928 143</td>
<td>6 862 161</td>
<td>8 307 382</td>
<td>8 500 000</td>
</tr>
<tr>
<td>Car exports</td>
<td>4 363 168</td>
<td>5 915 426</td>
<td>3 208 639</td>
<td>4 272 256</td>
<td>--</td>
</tr>
<tr>
<td>Customs duty on cars 0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Forecast
2.4. Unilateral measures

Unilateral measures such as unilateral tariff reductions, can support the competitive position of the German automotive industry in individual cases. Companies have, for example, the option of applying for tariff suspensions for specific imports.

Examples are the proposals by the automotive industry to reduce EU aluminium tariffs, or the more comprehensive proposal of the Italian Government to reduce tariffs on specific raw materials. These tariff reductions are intended to strengthen the competitiveness of manufacturing industry.

The VDA supports such measures in principle, where they correspond with the broad interests of the German automotive industry.

Trade defence instruments, i.e. protective measures such as anti-dumping tariffs, should be closely coordinated with industry in the common interest, and must not lead to trade policy escalation.

3. Outlook

Trade policy establishes an important framework for international competition. It is complex and far-reaching. Companies, politicians and the public should accordingly support it constructively and formulate it together. A balanced and focused trade policy is the only way to create the necessary and appropriate framework conditions for ensuring and advancing international competitiveness.

In the light of the Treaty of Lisbon, the European Parliament will play a greater role in future. Many issues will in future be co-legislated. The Trade Policy Committee of the European Union has published a special report on the trade policy needs of the automotive industry which emphasises the importance of open markets. Trade policy is also an issue in “CARS 21” (Competitive Automotive Regulatory System for the 21st Century).

An announcement by the European Commission on trade policy states clearly that trade policy will only have public backing in Europe if market access in non-EU states is possible on fair conditions. While the EU will remain an open economy, it will not indulge in naivety. In particular, the Commission will remain vigilant in defending European interests and jobs. It will take all appropriate measures against unfair trade practices. The automotive industry supports this approach, but expects it to go beyond lip service and achieve real action.

The VDA is willing to support trade policy constructively, and backs all initiatives which improve market access in non-EU states. We support appropriate, fair and balanced conditions for trade in the common interest. Germany is one of the most open markets in the world, and we expect this from our partners as well.