

### INTERNAL MARKET AND CONSUMER PROTECTION

## TTIP: MOTOR VEHICLES

### BACKGROUND

The automotive industry of the European Union (EU) is the second largest manufacturer of motor vehicles worldwide and generates directly and indirectly millions of jobs EU wide. The United States (US) represents by far the largest market for EU automobile exporters. Once concluded, the Transatlantic Trade and Investment Partnership (TTIP) will cover more than one third of global automotive trade. In the field of motor vehicles **TTIP should go far beyond the degree of trade liberalization reached in previous trade agreements** between the EU and other countries, since the expected effects depend strongly on the scope of trade liberalization which can be achieved. Both tariffs and non-tariff barriers should be eliminated. However, **the challenge is to achieve trade liberalization while respecting EU sovereignty and without sacrificing vehicle safety or environmental standards.** This is possible based on sound evidence about the equivalence of the outcome of different EU and US regulation e.g. in terms of passenger and environmental safety.



### FOCUS OF THE STUDY

The study **TTIP: Motor Vehicles** analyses the main **challenges and opportunities concerning trade with motor vehicles and parts** which should be considered during the negotiation between the EU and the US. The first part offers an overview of the **effects of two recently concluded free trade agreements (FTA), the EU-Korea FTA and the FTA with Canada.** In the second part the focus turns to the **EU-US trade barriers and the potential for regulatory cooperation in the automotive industry.**



### KEY FINDINGS

#### 1. EU interests in the Automotive Industry

The **EU automotive industry** is a major net exporter to the USA and **stands to benefit from measures to reduce the costs of different but broadly equivalent safety and environmental standards.** The structure of tariffs is such that EU tariffs in automobiles are on average higher. It is therefore in the EU's interests to use the **negotiating leverage it has by virtue of the higher tariffs to make progress on the reduction of non-tariff barriers in the US market.**

The EU standards in the automotive sector are based on agreed international standards. It is therefore in the interests of the EU to use TTIP as a means of **moving the US to accept a general move towards the use of agreed international standards.** This would serve the stated purpose of TTIP, which is to use transatlantic cooperation to shape international norms and standards.

#### 2. The Effect of recent FTAs on the Automotive Industry

The scope of tariff elimination in the **EU-Korea FTA** goes beyond anything the EU had agreed in previous agreements. The Agreement also breaks new ground in a range of other measures, such as addressing **non-tariff barriers** (NTBs). However, the reduction of NTBs lies by far behind the expectations of the studies

investigating the potential effect of the FTA. Moreover, certain **discontentment with the implementation of the FTA** has been articulated, for example regarding Korea's commitment to maintain the list of UNECE standards that will be treated as equivalent to Korean standards. EU automotive exports to Korea have exhibited a positive trend in recent years. However, it remains questionable to what extent the positive trend is attributable to the FTA.

According to **EU-Canada FTA (CETA)**, tariffs on automotive imports would be eliminated within 7 years, depending on the classification of the motor vehicle. Canada has incorporated a number of UNECE technical regulations into the Canadian Motor Vehicle Safety Regulation prior to the implementation of CETA. Only a few other UNECE Regulations would be accepted by Canada as a result of CETA. Therefore, the **degree of elimination of NTBs is rather limited**. The **rules of origin negotiated in CETA are rather lax**. Moreover, an **exceptional annual quota** allows Canada the export of 100.000 vehicles per year tariff-free to the EU market with domestic content of only 20 percent.

### 3. Opportunities in the TTIP Negotiations

TTIP offers important **opportunities** for the automotive sector based on an overview of current barriers to transatlantic trade of motor vehicles. **Tariff rates** for automotive products are relatively low on average. However, for some product groups they can be as high as 25 percent. In a mercantilist view, the EU should seize the opportunity to **use the relatively high EU tariff on passenger cars** (10% vis-à-vis 2.5% in the US) as a **bargaining chip** to induce the US to substantially lower its NTBs or to cooperate more on international standards. Concerning **passenger safety** of motor vehicles, significant opportunities are offered by TTIP, because outcomes of the different regulatory systems are regarded relatively similar in general. Thus, the **scope for regulatory cooperation should be relatively broad**. Furthermore, there is an opportunity in **environmental regulation** because the approval systems are more similar than for safety norms as the US does not rely on self-certification. The possibility of moving to globally harmonized testing cycles could also be a fruitful approach to reducing NTBs.

Generally, several **approaches to reduce unnecessary regulations NTBs** are discussed: **harmonization** of existing standards and more reliance on **international standards**; **cooperation in new technologies** on the development of common new future standards; and **mutual recognition** of certain existing regulations and standards where regulatory outcomes are sufficiently equivalent.

### 4. Challenges in the TTIP Negotiations

Challenges concerning **passenger safety** include the following aspects:

- A solution has to be found to deal with the major **difference between the system of self-certification in the US and the compulsory government approval system in the EU**.
- The **use of international standards** is the best option from an economic point of view in order to minimize compliance costs and effects of trade diversion. The question arises, however, how the US can be induced to rely more on this international approach.
- **Identifying regulations and standards which lead to similar passenger safety outcomes** is very cumbersome due to the high number and complexity of relevant TBTs.

The large differences in the approach and detail of **environmental regulation** raise the question of whether the condition of sufficient similarity of outcomes is met to enable broad based regulatory cooperation. This is particularly true for the **divergence in stringency of emission standards**. EU emission standards are more stringent as regards CO and CO<sub>2</sub>. In this respect the EU should avoid lowering of standards or competitive disadvantages for EU firms in their home market. The main challenge remains **reducing NTBs** and particularly the mutual recognition of standards and regulations with equivalent outcome **without compromising the level of existing passenger and environmental safety, the EU's precautionary principle, and democratic legitimacy**.

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