

**U.S. PROPOSAL ON NEGOTIATING NTBS RELATED
TO THE AUTOMOBILE SECTOR**

Communication from the United States

Addendum

The following communication, dated 28 January 2005, has been received from the Delegation of the United States.

The United States considers addressing non-tariff barriers (NTBs) to be an integral part of the Doha mandate on non-agricultural market access, and equally important as addressing tariff barriers. Previous NTB submissions by the United States have highlighted our belief that a consolidated focus on a number of NTB issues relevant to a single industry is a creative new approach for identifying and effectively addressing NTBs. The United States has previously indicated its interest in negotiating NTBs affecting the motor vehicle and motor vehicle parts industry, most recently in the revised indicative list we tabled in November 2004 (TN/MA/W46/Add.8/Rev.1). The United States now is pleased to contribute this proposal on a vertical NTB discussion on motor vehicle and motor vehicle parts. As we have indicated in previous proposals, calling attention to the variety of different NTBs that affect this industry does not suggest that the United States will seek to negotiate each of these issues in the NAMA group. Rather, we would envisage that negotiations be taken up in the relevant Doha negotiating group where one exists, or in the NAMA group if no other appropriate venue exists. Also, in our view, each of the NTB issues affecting the automotive (motor vehicle and motor vehicle parts) industry should be discussed and negotiated on its own merits. We note that we do not foresee the end result of NTB negotiations to resemble the Aircraft Agreement, but rather to result in a series of results, each of which addresses a particular NTB facing the automotive industry. This comprehensive focus on the NTB problems faced by the motor vehicle and motor vehicle parts industry illustrates that effective market access liberalization for products of this industry requires a multi-pronged approach.

I. INTRODUCTION

1.1 Internationally, the motor vehicle and motor vehicle parts industry is one of the world's most globalized, with trade that contributes significantly to the economies of both developed and developing country Members. However, NTBs increasingly act to limit market access in international automotive trade. The global automotive industry has demonstrated a common interest in reducing these trade barriers, and meets often in regional and multilateral trade fora to discuss NTBs. The United States views the opportunity that WTO Members now have through NAMA negotiations to pursue NTBs of interest to the global automotive industry as important to spurring growth in the sector, both in developed and developing economies.

II. THE CASE FOR ELIMINATING AUTOMOTIVE NTBS

A. ECONOMIC IMPACT OF THE SECTOR

2.1 As clearly demonstrated by WTO trade statistics, the automotive industry has a significant role in global trade, with an overall value of \$724 billion in 2003. Furthermore, trade in automotive goods has consistently expanded over the last 25 years, including 15 per cent in 2003 alone.¹ Automotive trade represents 13.3 per cent of global trade in manufactured goods,² and automotive exports are important to both developed and developing countries from all regions of the world. For example, in 2003, Brazil had automotive exports of \$6.5 billion, representing 8.9 per cent of its total merchandise exports. The Republic of Korea had exports of \$22.3 billion (11.5 per cent of merchandise exports); the Slovak Republic had exports of \$5.9 billion (26.9 per cent of merchandise exports); and South Africa had exports of \$3 billion (8.3 per cent of merchandise exports).³

2.2 Global motor vehicle sales are predicted to grow 27 per cent between 2003 and 2009 to 75 million units, according to an industry consulting group.⁴ Developing countries, particularly in Asia and South America, will see growth in their share of global motor vehicle production.

2.3 In 2003, the global consumption of motor vehicle parts was estimated to be about \$900 billion and is expected to increase to \$1.1 trillion by 2010, according to an original equipment industry association study.⁵ While the developed countries have traditionally tended to be the main consumers of motor vehicle parts, demand in developing nations is increasingly strong. Many developing countries already have strong motor vehicle parts industries and make a significant contribution to global trade in these products. In 2003, non-OECD countries accounted for \$38.3 billion USD in motor vehicle parts exports.

2.4 The automotive industry is a strong economic driver in developed and developing economies alike. In fact, in many cases it is a linchpin around which much of the manufacturing sector revolves. It also makes significant contributions to the services sector of an economy, through sales, distribution, aftermarket care and financing operations.

2.5 According to the Organisation Internationale des Constructeurs d'Automobiles (OICA – the International Organization of Motor Vehicle Manufacturers), the industry directly employs approximately eight million people, with several million additional jobs depending on the sector. If the global industry were to be regarded as a single country, its annual turnover would make it the sixth largest economy in the world.⁶

2.6 In the United States, it is estimated that the automotive industry accounts for 3.5 per cent of the total gross domestic product (GDP). U.S. motor vehicle and equipment manufacturing companies provided employment for 911,500 workers in 2003.⁷ When other jobs dependent on the industry are included, this figure rises dramatically, to 6.6 million jobs, or about five per cent of private sector jobs.⁸ For the motor vehicle manufacturing segment of the sector, employees' earnings were 65 per cent greater than the national average for all manufacturing industries. The automotive industry is

¹ http://www.wto.org/english/res_e/statis_e/its2004_e/its04_bysector_e.htm table IV.48.

² http://www.wto.org/english/res_e/statis_e/its2004_e/its04_bysector_e.htm table IV.50.

³ http://www.wto.org/english/res_e/statis_e/its2004_e/its04_bysector_e.htm table IV.54.

⁴ JD Power and Associates, *Ward's Automotive Reports*, December 13, 2004.

⁵ Original Equipment Manufacturers Association and RolandBerger Consultants Study - Odyssey of the Auto Industry.

⁶ <http://www.oica.net/htdocs/Main.htm>.

⁷ Ward's 2003 Motor Vehicle Facts and Figures, *Ward's Communications*, page 76.

⁸ Alliance of Automobile Manufacturers, March 07, 2004, *ECONOMIC INDUSTRY CONTRIBUTIONS*.

also a large purchaser of raw materials. The industry accounts for a high percentage of the annual U.S. consumption of many products, including 13.4 per cent of the steel, 74.3 per cent of the natural rubber, and 31.4 per cent of the iron sold annually.⁹

2.7 The automotive sector is also a significant investor in research and development. In the United States, the automotive industry invested \$18.4 billion in research and development in 1997, higher than any other manufacturing industry.¹⁰ Similar economic impacts can be found in any country with an established automotive sector. For those countries working to develop their automotive sectors, these facts are key motivators.

B. INDUSTRY INVOLVEMENT

2.8 The world automotive industry has already shown a strong interest in having automotive non-tariff barriers reduced or eliminated as part of the Doha Round. Trade associations representing most of the major vehicle producing companies have, at their own initiative, met on several occasions to compare views, find common ground, and educate government officials on their key NTB concerns. Their first exploratory meeting took place in September of 2003 in Cancún, with representatives from seven automotive trade associations (representing automotive makers in the United States, the EU, France, Brazil, Japan, Korea and India) meeting to discuss potential commonalities in addressing NTBs. In March of 2004, the United States (ATPC), EU (ACEA) and Japanese (JAMA) associations met again to brief government officials in Geneva. On June 3, 2004, a large group of representatives of the global automotive industry met in Geneva to seek agreement on an agenda of common interest on NTBs and to prepare a presentation for WTO NAMA delegates. The group agreed on a set of common NTBs of the greatest interests and presented their findings and recommendations to a gathering of approximately 25 WTO Member delegations. Industry associations that participated included: Brazil (ANFAVEA); Canada (CVMA); EU (ACEA); Japan (JAMA); Korea (KAMA); India (SIAM); and the United States (ATPC).

2.9 Automotive NTBs have also been a topic of consideration in the Asia Pacific Economic Cooperation (APEC) Automotive Dialogue, in which industry groups and governments from all of the major automotive producing countries in the region participate. This group has discussed the NTBs facing the industry on a number of occasions (for example, the Automotive Dialogue agreement on "Principles of Automotive Technical Regulation Harmonization), and has sent a letter to the Chairman of the NAMA group offering the Dialogue's support for the Round. Moreover, APEC has placed high priority on supporting the WTO. Identifying NTBs that Members may wish to pursue in the WTO is a specific element of APEC's work, and we expect to see that effort intensify in 2005.

2.10 The continued participation and engagement of these industry groups will be vital to successfully removing NTBs in the sector. Industry involvement will be necessary to fully identify and prioritize the NTBs, and industry will provide valuable advice on commercially meaningful approaches to removing them.

III. THE TYPES OF NTBS AFFECTING THE AUTOMOTIVE INDUSTRY

3.1 Governments have already begun to express their interest in addressing NTBs affecting the sector. More than ten developed and developing country WTO Members have cited in their indicative list submissions NTBs related to automobile or automobile parts. In its revised indicative list of NTBs, the United States identified the following five types of barriers affecting the U.S. automotive industry:

⁹ Ward's 2003 Motor Vehicle Facts and Figures, *Ward's Communications*, page 57.

¹⁰ Alliance of Automobile Manufacturers, March 07, 2004, *ECONOMIC INDUSTRY CONTRIBUTIONS*.

- Strict and/or excessively burdensome restrictions on the ability of the private sector to offer financing, hampering the ability of consumers to purchase motor vehicles.
- Some Members' distribution channels are not open to imported products. This services-related barrier acts as a goods market access barrier by restricting the ability of importers to transfer their automobiles from the production plant to market.
- Several Members apply vehicle taxes based on engine displacement in a manner that burdens foreign manufacturers disproportionately because they produce vehicles with large engine sizes.¹¹
- Foreign equity restrictions restrict or distort investments in automotive production.
- Barriers to the importation and sale of remanufactured products.

3.2 Similar automotive NTBs have been notified by several other WTO Members such as Japan and Korea. Also, while the United States did not include in its indicative list automotive NTB complaints that relate directly to concerns regarding the WTO-consistency of existing measures maintained by WTO Members, we recognize that other Members did. We note the importance to the global industry of addressing these issues. The United States shares the desire to resolve NTB issues and is willing to discuss the best way to deal with them in a manner that reduces impediments to globalized motor vehicle and motor vehicle parts production.

IV. HOW WE SHOULD PROCEED

A. WHAT SOLUTIONS ARE WE SEEKING?

4.1 The United States envisages negotiations toward resolving NTB issues affecting the motor vehicle and motor vehicle parts industries as highly flexible, taking advantage of the full range of NTB negotiating modalities outlined in Paragraph 14 of Annex B of the Decision Adopted by the General Council on 1 August 2004. We anticipate that the negotiations could include a mix of approaches, including the expansion of multilateral rules applicable to all WTO Members; the negotiation of commitments amongst interested parties (plurilaterals), the benefits of which would be enjoyed by all WTO Members; and bilateral request-offer solutions that would be bound in WTO schedules.

4.2 On the multilateral level, the United States expects, for example, that negotiations related to customs practices occurring in the Negotiating Group on Trade Facilitation could create rules that would eliminate some of the NTBs cited not only by the global automotive industry, but by other global industries, as well.

4.3 In other cases, while the nature of some barriers affecting the automotive industry may be the same as barriers affecting other sectors (e.g., the electronics sector), the solutions may be motor vehicle and motor vehicle parts-specific. For example, a group of Members might want to agree among themselves to implement a particular set of international standards relevant only to the automotive industry, with the results being applied on an MFN basis. We would note that Members already are free to adopt such standards in any case, subject to the provisions of the TBT Agreement. Doing so in the context of a vertical automotive initiative would be just another way to reduce fragmentation and promote regulatory convergence efforts where they make sense.

¹¹ This identified NTB encompasses only taxes that are based on engine displacement and is not intended to include vehicle taxes based on other factors.

4.4 Finally, individual WTO Members would have the opportunity to address particular concerns by adding bilateral issues negotiated on a request/offer basis. No matter the modality, the United States has no intention of re-opening existing Agreements through this vertical automotive initiative process.

B. PROCESS

4.5 The United States submits this paper because it is time to move beyond a list-making exercise on NTBs toward more substantive negotiations focused on solutions. Numerous NTBs affecting the motor vehicle and motor vehicle parts industry have already been identified through the indicative list process and the work of automotive associations. While the United States welcomes new notifications from Members who have not yet participated in the indicative list process, the most useful next step is for Members to seek commonalities in the existing lists and decide which NTBs are the most critical to address.

4.6 This process could begin with an informal group of countries with an interest in participating in a vertical automotive initiative, working to focus more closely on the issues to be addressed. Members could offer their proposals on NTB solutions in this group. All WTO Members would be welcome to participate in this informal group discussion process. Members of the informal group would have the responsibility to ensure that the NAMA group is fully informed of developments.

C. COORDINATING WITH OTHER WTO COMMITTEES (TBT, CUSTOMS VALUATION, IMPORT LICENSING, ETC.) AND NEGOTIATING GROUPS (TRADE FACILITATION, SERVICES)

4.7 Discussions in the NAMA group on how best to approach those NTBs that may fall under the purview of existing WTO Agreements, and in fact may have been under discussion in Committees for some time, have been challenging for all Members. Some NTBs affecting the automotive industry may best be addressed in the NAMA group, either in an across-the-board fashion for horizontal issues that may surface, or in the bilateral request/offer process or discussions among a group of interested Members. Other issues, however, may better be handled in existing Committees, where it may be possible to address practical problems involving the administration of Agreements through dialogue, best practices, and sharing positive experiences, thereby achieving new market access under existing Agreements. Committees have used a variety of tools to resolve issues and can decide on the appropriate way to address the NTBs raised by Members. To facilitate transparency in the negotiations, Members choosing to highlight NTB issues in existing WTO Committees may wish to inform the NAMA group that they have done so.

4.8 For those automotive NTBs that appear to fall under negotiations in other areas, the United States continues to believe that these negotiating groups are in the best position to pursue them. Members should give consideration to the most effective and efficient ways to ensure that the NAMA group is informed of developments in other Committees and negotiating groups.

D. THE ROLE OF NON-WTO BODIES

4.9 Those WTO Members interested in participating in small group discussions on automotive NTBs should draw from the experiences and expertise of other groups with a history of addressing automotive NTBs, such as the APEC Automotive Dialogue, the UN/ECE WP29, and the OECD Automotive Working Group, as appropriate.

4.10 In addition, given the prevalence of customs issues raised by this industry, it may be appropriate to take due account of relevant work of the World Customs Organization (WCO) and other international organizations, to ensure solutions are not developed in a vacuum, nor duplicated by different agencies.

V. NEXT STEPS

5.1 As we have noted in previous NTB submissions, WTO Members are well aware of the significant time constraints on the DDA negotiations, the large number of NTBs of interest to various parties, and the need to agree on manageable approaches that will pay real dividends to industry and contribute to growth and development for all WTO trading partners. The United States believes that it is important to embark on a Member-driven process. Given the global nature of the automotive industry, a vertical approach makes it easier to energize industry associations around the world to engage in the Doha NTB negotiations and to add value. By beginning an informal group discussion process on NTBs affecting the automotive sector, interested WTO Members can take advantage of the opportunity provided by the DDA to reduce and/or eliminate automotive NTBs, as well as the significant political support that the global automotive industry brings to the NAMA negotiations.
