

CURRENT ISSUES IN KOREAN, JAPANESE, & CHINESE AUTO TRADE WITH THE U.S.

Korea

- Last year, the Administration worked to renegotiate a very bad Korea trade agreement and as a result, OEM's, along with their UAW partners, were able to support the agreement without reservation.
- In this negotiation America's automakers asked for the complete elimination of Korean market barriers, a rapid opening for U.S. exports, and a strong enforcement mechanism. The renegotiated U.S.-Korea Free Trade Agreement substantially meets these conditions and should be approved by Congress.
- Specific Auto Provisions included:
 - Automotive Safety Standards: Safety standards have effectively operated as a non-tariff barrier to U.S. auto exports. The 2010 supplemental agreement announced today allows for 25,000 cars per U.S. automaker – or almost four times the number allowed in the 2007 agreement -- to be imported into Korea provided they meet U.S. federal safety standards, which are among the most stringent in the world.
 - Automotive Environmental Standards: To avoid unfair burdens on automakers while maintaining high standards for environmental protection, major trading nations provide reasonable flexibility on environmental standards for small-volume vehicle importers. Under the 2010 supplemental agreement, all U.S. autos will be considered compliant with new Korean environmental standards on fuel economy and greenhouse gas emissions, developed since the 2007 agreement, if they achieve 119 percent of the targets in these regulations. This provision helps American automakers sell their cars affordably in Korea without undermining Korea's environmental objectives.
 - Transparency: The 2010 supplemental agreement makes two important additions for significant regulations: creating a 12-month period between the time a final regulation is issued and the time auto companies must comply with it, giving companies sufficient time to adjust; and requiring Korea to develop a new review system within 24 months of entry into force to make sure that existing auto regulations accomplish their objectives in the least burdensome manner possible.
 - Car Tariff Elimination: The 2010 supplemental agreement keeps the 2.5 percent U.S. tariff in place until the fifth year. At the same time, Korea will immediately cut its tariff on U.S. auto imports in half (from 8 percent to 4 percent), and fully eliminate that tariff in the fifth year.
 - Truck Tariff Elimination: The 2010 supplemental agreement allows the United States to maintain its 25 percent truck tariff until the eighth year and then phase it out by the tenth year – but holds Korea to its original commitment to eliminate its 10 percent tariff on U.S. trucks immediately.
 - Tariffs on Electric Cars: Under the 2010 supplemental agreement, Korea will immediately reduce its electric car tariffs from 8 percent to 4 percent, and both countries will then phase out their tariffs by the fifth year. This is a concrete step toward achieving President Obama's goal of supporting America's green technologies.
- With the market opening commitments in the renegotiated U.S.-Korea Free Trade Agreement, and with diligent oversight and enforcement to ensure Korean compliance with the FTA's terms, America's auto makers are confident that this agreement will open the way for a sizeable increase of US automotive exports over just the next several years – perhaps as much as a 400%-500% increase due to the provisions of the FTA.
- The renegotiation was seen as an historic shift in US trade policy where US manufacturing was no longer viewed as an afterthought in trade negotiations.
- The U.S.-Korea Free Trade Agreement demonstrates that a well negotiated outcome can benefit farmers, services and manufacturers, and such an agreement in turn can win the support of Labor and industry, Republicans and Democrats alike. Going forward, the United States should seek out trade partners that are committed to embracing real, two-way trade. We should use negotiations to effectively dismantle both tariff and nontariff barriers, and pursue active enforcement of trade laws, including intellectual property rights and currency intervention.

CURRENT ISSUES IN KOREAN, JAPANESE, & CHINESE AUTO TRADE WITH THE U.S.

Japan

- Japan has surpassed Korea as the most closed auto market in the world.
 - Over many years, the Japanese government through a rolling set of Non-Tariff Barriers (particular design requirements for emissions and safety unique for the Japanese market), an open bias against imported autos, prohibitions on participation in government procurement, exclusion from scrappage (cash-for-clunkers) programs, and significant and sustained currency manipulation, Japan has created a market in which non-Japanese automotive companies have virtually no sales presence, no distribution network, and no incentive to make the substantial investment it would take to engineer and design products for the market, despite the fact that Japan currently has zero duty for imported autos.
 - Import penetration of the Japanese auto market by non-Japanese brands is 4.5% of the market. The current US automotive deficit with Japan is \$42 billion, representing 70% of the \$60 billion total US trade deficit with Japan.
- Japanese OEM's were encouraged to over-capacitize and over produce to ensure full employment in the country
- One of the main reasons why Japanese automakers are aggressively pursuing FTA status with both Europe and the United States (via possibly joining the TPP agreement) is to level the playing field with Korea once KORUS is enacted.
 - Under KORUS, Korea would enjoy duty free exports for cars to the U.S. within 5 years-following implementation.
 - Japanese automakers are slowly losing market share in the US, while Korean automakers' market share is rapidly growing.
 - Another big benefit often overlooked is the elimination of the US 2.5% car tariff. Many assume that the 2.5% tariff is not a big deal. AAPC has conducted some analysis of the benefits Japanese automakers would enjoy if the United States dropped its 2.5% tariff on motor vehicle imports as a part of a FTA. The annual benefits are substantial- nearly \$800 billion in 2010. For 2010:
 - Japan exported to the United States over 1.54 million vehicles
 - Those exports are worth \$31.8 billion (\$20,661 per car)
 - The import tariff on those CBU vehicles was 2.5% (\$516.50 per car)
 - The US tariff revenue on Japan motor vehicle imports equals \$795 million
 - Based on import share by company:
 - \$328 million benefit for Toyota
 - \$162 million for Nissan
 - \$116 million for Mazda
 - \$91 million for Honda
 - \$73 million for Subaru
 - \$25 million for other
 - Therefore, in addition to level the playing field with the Korean automakers, a FTA with the United States would give Japanese automakers a nearly \$1 billion a year benefit in lower tariffs. Japan has no tariff on motor vehicles, so U.S. OEM's would get no tariff benefit in return.
- The Japanese auto industry needs to restructure and further diversify investment outside of Japan. The Japanese government needs to completely open the market, and facilitate the normalization of the market, to allow imports into Japan. A free trade agreement given without these steps being taken in advance will likely provide the breathing space for the Japanese government and industry to avoid necessary reforms.
- The current TPP member economies should focus on establishing a high quality agreement amongst themselves before inviting other markets to participate. A decision to add a major non-free trade economy like Japan to the TPP negotiation now will slow and complicate the process, generate significant opposition among various economic sectors (agriculture, government procurement and automobile manufacturing) and delay and quite possibly completely derail efforts to finalize the TPP.
- In advance of being invited to join TPP, given its closed auto market history, Japan has an obligation to demonstrate its willingness to open its closed auto market to international competition. Only a multi-year track record of change in import market access in Japan should be sufficient to indicate that a permanent and meaningful change has taken place

CURRENT ISSUES IN KOREAN, JAPANESE, & CHINESE AUTO TRADE WITH THE U.S.

China - Anti-Dumping/Countervailing Duties Case

Background

- Several recent trade issues brought forward and/or acted on by the U.S. (tires, steel pipes, coated paper) have flared trade tensions between the two countries
- To date, China has only retaliated with the Auto and Chicken Anti Dumping / Countervailing Duty (AD/CVD) investigations.
- In addition to the AD/CVD actions, the US continues to voice concern that the Chinese RMB is undervalued and is contributing to a significant trade deficit between the two countries.

Issues/Status

- MOFCOM has issued a preliminary determination in the US Auto Imports case finding cause for dumping and subsidy on vehicles with powertrains > 2.5L
- This case was in response to the 421 Tires Case that the U.S. took action on raising tariffs on Chinese tires imported into the U.S. in December of 2009; The Chinese have exhausted their WTO appeals which have re-affirmed the U.S. right to impose the sanctions (set to expire YE 2013)
- Additional combined import levies may range from 2.0%-34.4% and are OEM specific and will be in addition to the current 25% import tariff

Company Name	Dumping %	Countervailing %	Total Additional Levy %
General Motors	9.9	12.9	22.8
Chrysler Group	8.8	6.2	15.0
Mercedes-Benz US International	2.7	0	2.7
BMW	2	0	2.0
Honda	4.4	0	4.4
All Others	21.5	12.9	34.4

- Note: Ford did not import any vehicles from the U.S. during the time period called out of the MOFCOM investigation, and hence could not be assessed a specific rate; Regardless Ford fully participated in the study and responded to MOFCOM questionnaires.

Talking Points/Requests

- This is obviously a retaliatory measure for duties imposed by the President in last year's 421 Tire Case. US OEM's lobbied unsuccessfully to have production tires excluded from the 421 tire case.
- US OEM's did not dump vehicles in the Chinese market and it is a well known fact that Ford Motor Company is not the beneficiary of any US government bailout or subsidy.
- U.S. OEM's have participated in several MOFCOM signing ceremonies and buying missions with the most recent being Chicago, January 2011, indicating their desire to import products from the U.S.; this action is at cross-purposes with these buying missions that aim to encourage increased vehicle imports to help offset trade deficits.
- What prevents US OEM's from importing more product so is that even with homologation waivers that have been provided to them in the past, because of the small volumes that they are able to sell of these niche products, other key factors greatly impact their business cases:
 - the existing 25% import tariff
 - remaining and newly added homologation requirements (e.g. headlamps)
 - the lead time required for testing the vehicle in China, especially the emission durability test versus utilizing a emission deterioration factor (DF) as other markets do
 - whether the current AD/CVD case will result in additional penalties for future imported vehicles from the U.S.