

# AMERICAN AUTOMOTIVE POLICY COUNCIL



## THE TRANS-PACIFIC PARTNERSHIP FTA

American Automotive Policy Council  
May 2011

# SUMMARY

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- Ford, GM and Chrysler fully support the ambition of a 21<sup>st</sup> century TPP trade agreement with Australia, Brunei, Chile, New Zealand, Malaysia, Peru, Singapore, and Vietnam.
- This 21<sup>st</sup> Century Agreement should form the template for all future trade agreements and fully address tariffs, NTBs, regulations, and trade disruptive auto policies, drive workable and fair rules of origin, and ensure fair and trade supporting investment policies.
- In addition, the TPP should also mandate trade supporting currency disciplines among members to address the trade distorting practice of currency misalignment.
- Step one of the TPP negotiations should be to complete a high ambition agreement with the initial nine countries..
- To minimize TPP implementation delays, consideration of new members -- including Japan -- should occur only after the agreement is completed with the original nine members.

# WE HAVE CONSISTENTLY SUPPORTED FREE TRADE...

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Chrysler, Ford and GM have supported every major trade agreement over the past 45 years.

## U.S. Free Trade Agreements

1965	1988	1994	1995	2001	2004	2005	2006	2007	2009	2011*
U.S. Canada Auto Pact	Canada	NAFTA	Israel	Jordan	Chile Singapore	Australia Oman	Morocco El Salvador Guatemala Honduras Nicaragua	Bahrain Dominican Republic	Peru Costa Rica	Korea Colombia Panama

# WE FULLY SUPPORT THE TPP FTA NEGOTIATION...

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- Chrysler, Ford and GM support the negotiation to establish a high standard 21<sup>st</sup> Century Trans-Pacific Partnership free trade agreement with **Australia, Brunei, Chile, New Zealand, Malaysia, Peru, Singapore, and Vietnam.**
- The economies of the nine original TPP countries are largely complementary, which facilitates speedy negotiations and minimizes Congressional consideration risks. For reference, the complexities and sensitivities of auto trade was a key reason the US-Korea FTA negotiations were protracted and achieving subsequent broad support was lengthy.
- The United States has a net auto trade surplus with all eight TPP countries. The U.S. auto surplus totaled \$2.2 billion in 2010, and would set the stage for potential further trade growth.
- TPP will also provide a high-standard FTA model for the Asia-Pacific region, and a solid economic anchor for the United States in Asia to prevent an economic/trade divide being drawn down the middle of the Pacific.

# TPP SOLIDIFIES GAINS & EXPANDS INTO NEW MARKETS...

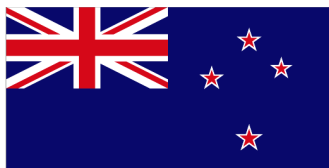
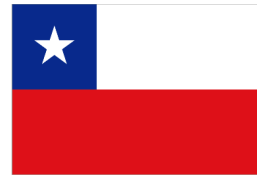
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- Allows the U.S. to build on existing FTAs with four of the eight other countries (**Australia, Chile, Peru, Singapore**), by better coordinating and harmonizing gains already made in U.S. trade agreements with those nations.
- Serves as substantial step forward by establishing FTAs with four new U.S. trade partners (**Brunei, Malaysia, New Zealand and Vietnam**).
- Allows the nine signatories to establish a model agreement capable of serving as a high-standard, broad-based regional pact.
- Allows for the inclusion of other Asia Pacific countries into the TPP when those countries first commit to free and fair trade, and agree to adopt the commitments established by the initial nine countries as well any new disciplines deemed necessary for that particular market.

# STEP ONE: FINISHING WITH THE FIRST NINE COUNTRIES

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- Establishing a 21st Century agreement among the nine countries, already the largest U.S. FTA in terms of the number of countries involved, is ambitious and will be challenging to successfully negotiate and complete.
- By setting high standards now, we will build a critical mass of good trading behaviors that will provide an incentive to other countries in the region to truly open their markets.
- The desire to join this important network of countries should create real incentives for change in nations that have historically been closed to international trade and investment.



# PRIORITIES WITH INITIAL NINE COUNTRIES

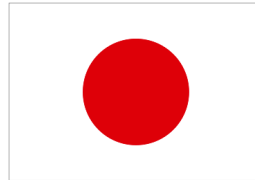
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- **Tariffs:** Rapid (3yrs or less) removal of tariffs on motor vehicles, with the understanding that less developed countries, such as Vietnam, may need more time.
- **NTBs:** Dismantle non-tariff barriers, such as the tax, technical regulations and other government policies that unnecessarily act as a barrier to the free flow of automotive goods and hinder imports
- **Regulations:** Promote the harmonization of auto standards and regulations with the goal of having TPP countries accept U.S. automotive products without additional or duplicative regulatory tests or requirements.
- **Auto Policies:** Dismantle policies specifically designed to thwart international competition, such as Malaysia 's National Automobile Policy (Local Content tax Incentive, Tax rate structure , Import Duty, import permits and Gazetted Value)
- **Rules of Origin:** Accept Rules of Origin that include user friendly methodologies (Net Cost approach), maximizes U.S. motor vehicle exports (reasonable RVC level), and limits circumvention (duty drawback prohibited).
- **Investment:** Seek reciprocal investment policies with our free trade partners.
- **Currency:** Adopt currency disciplines to prevent countries from nullifying the FTA trade liberalizing commitments by allowing countries to gain an unfair trade advantage by manipulating currency values.

# OTHER COUNTRIES JOINING THE CURRENT TPP FTA TALKS

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- Several countries have expressed interest in joining the TPP talks. These include **Canada**, **Japan** and **Thailand**.

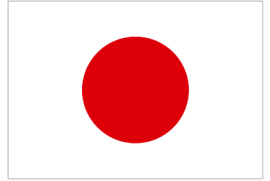


- We believe it's too late in the talks to begin the process of seamlessly adding any nation to the TPP. It would be counterproductive to a successful and timely conclusion of an agreement with the initial group of nine countries.
- In particular, the inclusion of other countries with large and less compatible economies should not be considered until the current negotiation is completed.
- In the meantime, countries that are interested in joining the TPP after an agreement is established among the initial tranche of countries should take steps today that demonstrate their willingness to truly open their markets.



# RUSHING JAPAN INTO THE TPP NOW IS A BAD IDEA...

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- Japan, a major automotive market, manufacturer and exporter has expressed an interest in joining the TPP talks.
- Japan joining now will unnecessarily complicate the existing negotiation and significantly undermine the agreement currently underway.
- Inclusion of Japan in the current TPP negotiations will, at a minimum, delay the completion, and/or approval of the U.S. FTA with the other eight countries, and U.S. efforts to establish an economic anchor in the Asia-Pacific region.
- It would also delay the establishment of a 21<sup>st</sup> Century FTA for the region as a counter for the less comprehensive FTAs and economic partnerships that are proliferating across the region.
- It will diminish the incentive needed to motivate Japan to make the necessary changes/reforms to address the systemic imbalances in access in key sectors.

# JAPAN JOINING TPP LATER- ONLY UNDER RIGHT CONDITIONS

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- Improved U.S. access to the Japanese auto market, the world's third largest, would represent an important commercial opportunity for U.S. automakers.
- However, Japan has a decades-long and consistent history of maintaining a closed auto market to international competition.
- Japan should not be provided preferential access to the U.S. auto market until there is evidence that Japan is truly willing to open its market to U.S. auto exports
- In advance of being invited to join TPP, 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.



# Conclusion

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- Ford, GM and Chrysler fully support the ambition of a 21<sup>st</sup> century TPP trade agreement with Australia, Brunei, Chile, New Zealand, Malaysia, Peru, Singapore, and Vietnam.
- This 21<sup>st</sup> Century Agreement should form the template for all future trade agreements and fully address tariffs, NTBs, regulations, and trade disruptive auto policies, drive workable and fair rules of origin, and enure fair and trade supporting investment policies.
- In addition, the TPP should also mandate trade supporting currency disciplines among members to address the trade distorting practice of currency misalignment.
- Step one of the TPP negotiations should be to complete a high ambition agreement with the initial nine countries, Consideration of new members should occur only after the agreement is completed with the original nine members.
- We believe Japan is not ready for inclusion in the TPP talks, and should only join under the right conditions.
- Only a multi-year track record of change in import market access in Japan would be sufficient to indicate that a permanent and meaningful change has taken place.

# APPENDIX - JAPAN

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- MANY U.S. SECTORS HAVE SYSTEMIC ISSUES WITH JAPAN
- THE U.S. HAS TRIED TO OPEN JAPAN'S CLOSED AUTO MARKET
- JAPAN'S AUTO MARKET/INDUSTRY BY THE NUMBERS...
  - THE WORLD'S THIRD-LARGEST AUTO MARKET...
  - IS ALSO THE WORLD'S MOST CLOSED AUTO MARKET...
  - AFFECTING ONE OF OUR MOST IMPORTANT PARTNERSHIPS
  - COMPARISONS WITH U.S. MARKET
  - COMPARING AUTO MARKET SHARE...
  - INDIVIDUAL RESULTS SUPPORT AVERAGES IN U.S. & JAPAN
  - ALL IMPORTS HAVE A DIFFICULT TIME SELLING IN JAPAN

# MANY U.S. SECTORS HAVE SYSTEMIC ISSUES WITH JAPAN...

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- Autos is not the only sector that has long-standing market access issues with Japan.
- Other U.S. sectors have had decades-long issues with access in Japan, include\*:

## Agriculture:

- Rice
- Wheat
- Beef & Pork

## Services:

- Financial & Insurance
- Construction, Architecture & Engineering
- Telecommunications

## Other Manufactures

- Medical Devices & Pharmaceuticals
- Wood Products & Building Materials

\* Source: 2011 National Trade Estimate Report



# THE U.S. HAS TRIED TO OPEN JAPAN'S CLOSED AUTO MARKET

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- **Japan Purposefully Closed its Auto Market-** The closed nature of Japan's auto market was deliberately created by government policy. In the early 1950s, auto imports, mostly from the U.S., accounted for 60% of all new sales in Japan. Japan soon utilized an array of protectionist policies to drive U.S. auto companies out. Those policies had their intended effect-- resulting in a drop in foreign share of Japan's market from 60% in 1953 to around 1% in 1960.
  - **1995 US-Japan Auto Agreement-** By the mid 1990's, U.S. industry and government decided to take action. The Clinton Administration's threat to retaliate against Japan by raising to 100% the tariff on imported luxury cars from Japan brought the Japanese government to the negotiating table. In August 1995, the U.S. and Japan signed a market opening agreement. This major agreement, was seen at the time as a major success in securing Japanese agreement to a free and open market. Despite the agreement, huge barriers remained and import market share continued to languish.
  - **Weak Japan Currency (yen) Policy-** A key reason U.S. exports to Japan have remained so low, even after the 1995 US-Japan Auto Agreement, was the substantial weakening of the yen against the dollar. Soon after the 1995 Agreement was signed, the yen depreciated 35%- more than sufficient to offset any benefit American auto companies gained in the 1995 Agreement. To ensure it stayed artificially low, Japan responded to upward pressure by intervening massively in currency markets. From 1998 to 2004, Japan purchased half a TRILLION dollars intervening in currency markets more than 160 times.

# JAPAN'S AUTO MARKET/INDUSTRY BY THE NUMBERS...

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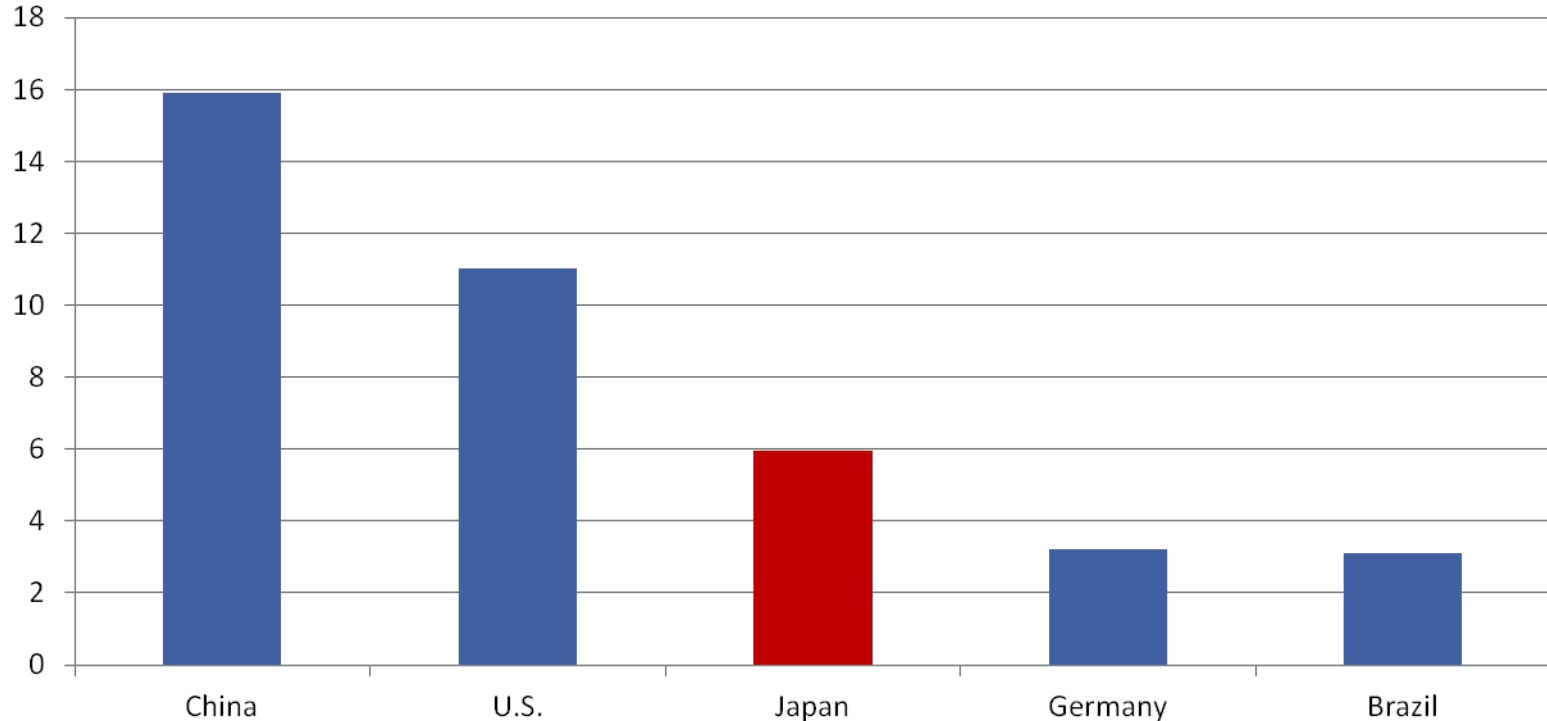
- Is the world's 3<sup>rd</sup> largest auto market after the United States and China (sold 4.95 million vehicles in 2010)
- Is the world's largest motor vehicle exporter to other markets around the world (exported 4.84 million vehicles in 2010). Exports 50% of total auto production (1.5 vehicles to the US alone)
- Is the most closed auto market in the developed world to imports- consistently less than 5% import penetration, when global norm is 40% or more (import sales of 225,000 vehicles in 2010)
- Limited US automakers to exporting only 8,000 vehicles to Japan in 2010
- 70% (\$42 billion) of the \$60 billion U.S. trade deficit with Japan in 2010 is automotive

# THE WORLD'S THIRD-LARGEST AUTO MARKET...

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Japan purchases twice as many vehicles each year as Germany and Brazil, and nearly half as many vehicles as the United States.

World's Largest Auto Markets (2010, in millions)

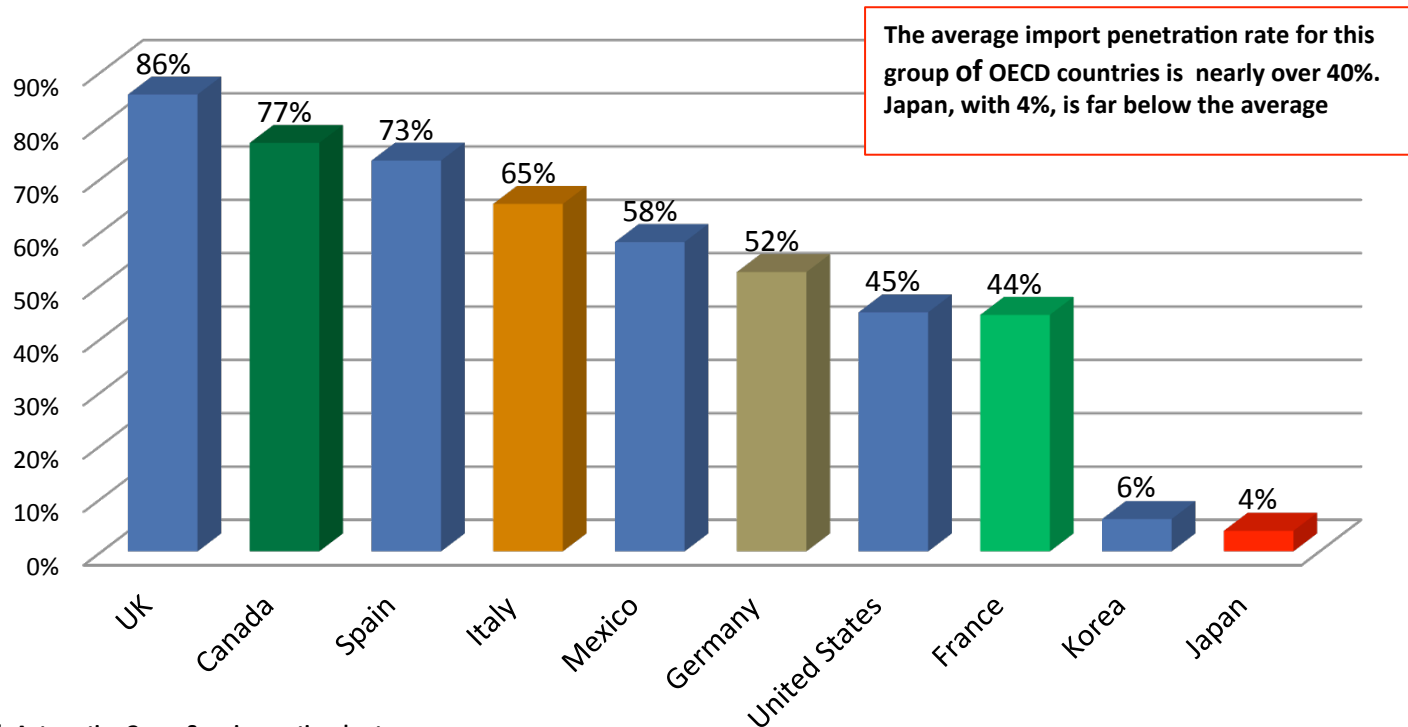




# IS ALSO THE WORLD'S MOST CLOSED AUTO MARKET

Japan remains the most closed auto market in the developed world, with imports capturing no more than 5% of sales – and no material improvement in sales from any importers, including BMW, VW/Audi or Hyundai/Kia.

**Major OECD Auto Market \*  
Import Penetration**



Source: Ward's Automotive Group & various national auto association data

\* OECD markets with one-million or more sales

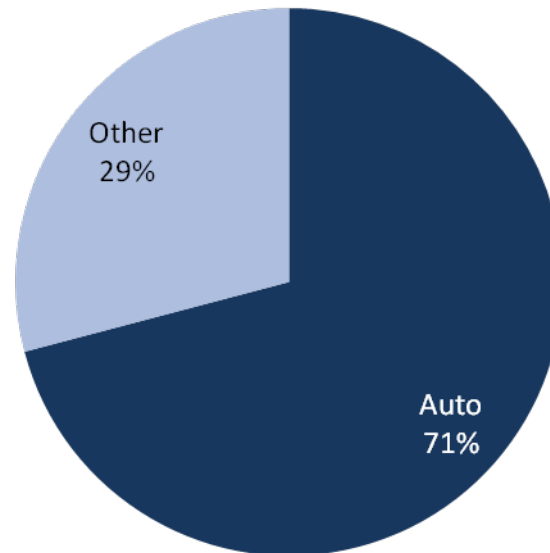
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# AFFECTING ONE OF OUR MOST IMPORTANT PARTNERSHIPS

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Auto trade drove 70% (\$42 billion) of our \$60 billion trade deficit with Japan last year.

2010 U.S. Trade **Deficit**



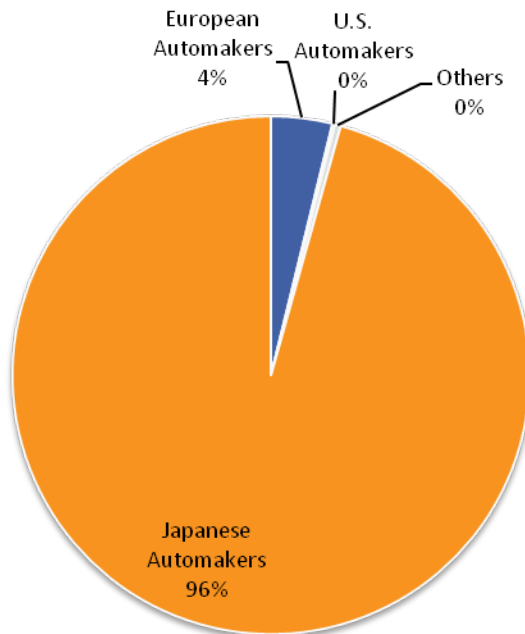
For every one vehicle that the U.S. exports to Japan, Japan exports 201 vehicles to the U.S.

# COMPARISONS WITH U.S. MARKET

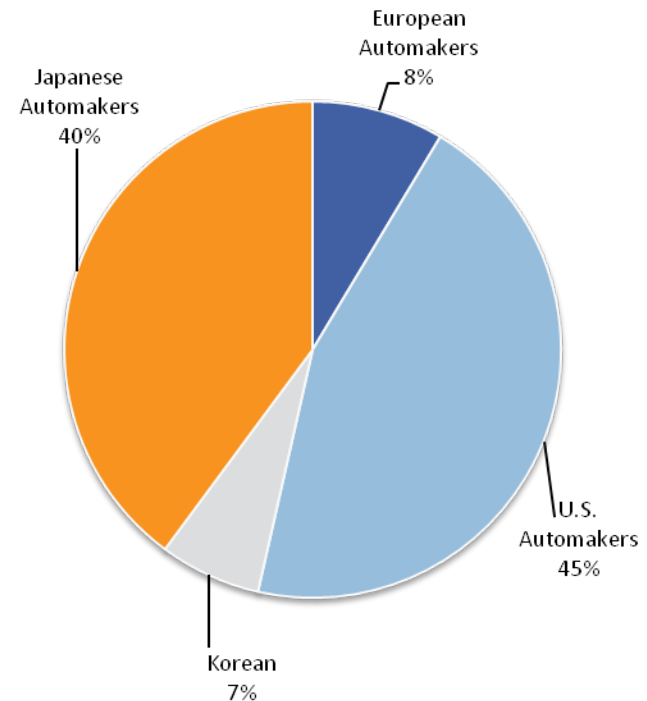
In the United States, more than 16 global automakers compete, and no single company (domestic or foreign) captures more than 20% of the market. Foreign automakers captured 55% of all U.S. sales last year.

In Japan, Japanese automakers capture more than 95% of their market. European, American and Korean automakers, among others, together split the remaining 4.5%.

**JAPAN AUTO MARKET -- 2010**



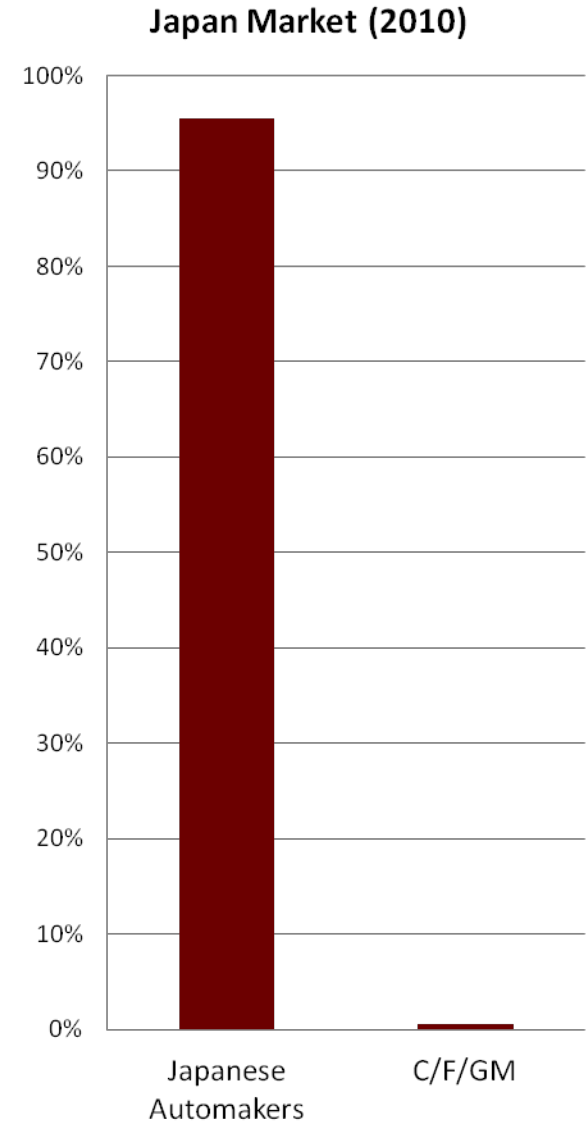
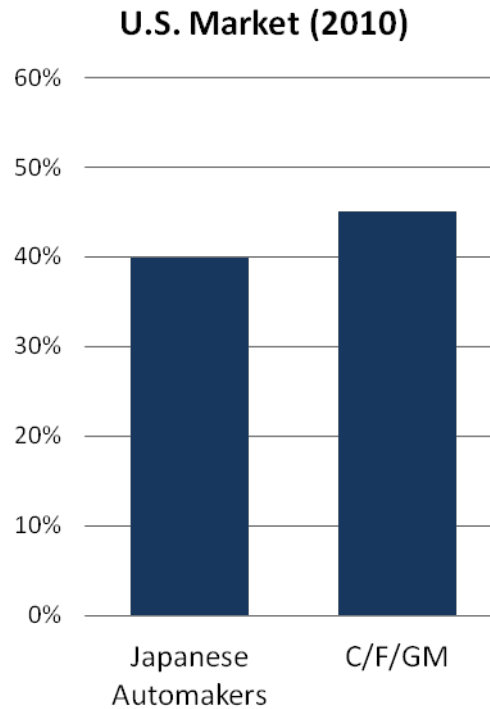
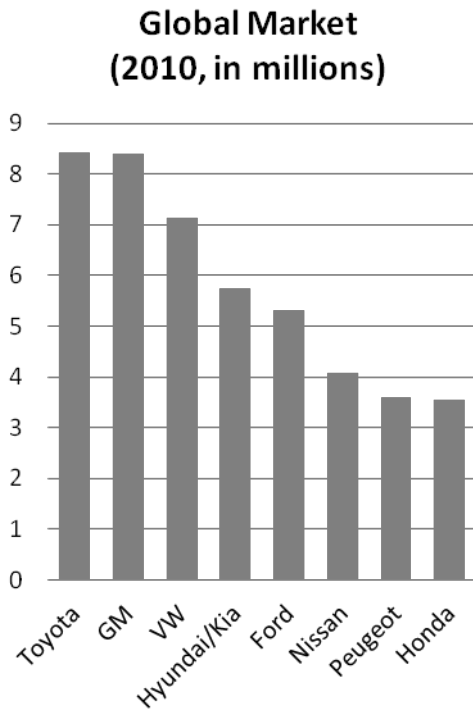
**U.S. AUTO MARKET -- 2010**



# COMPARING AUTO MARKET SHARE

Automakers have battled for leadership on global sales for years. Competition remains close, particularly among the leading American and Japanese automakers.

Japan, the world's third-largest auto market, is another story.

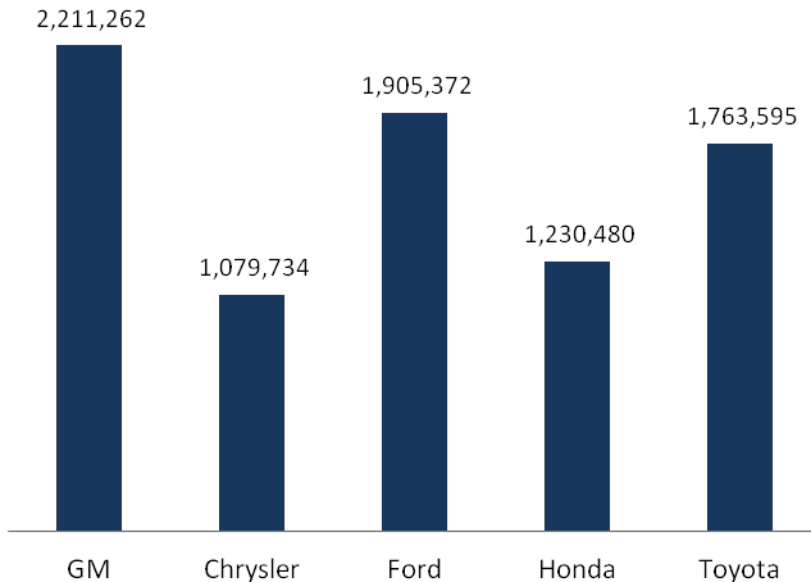


# INDIVIDUAL RESULTS SUPPORT AVERAGES IN U.S. & JAPAN

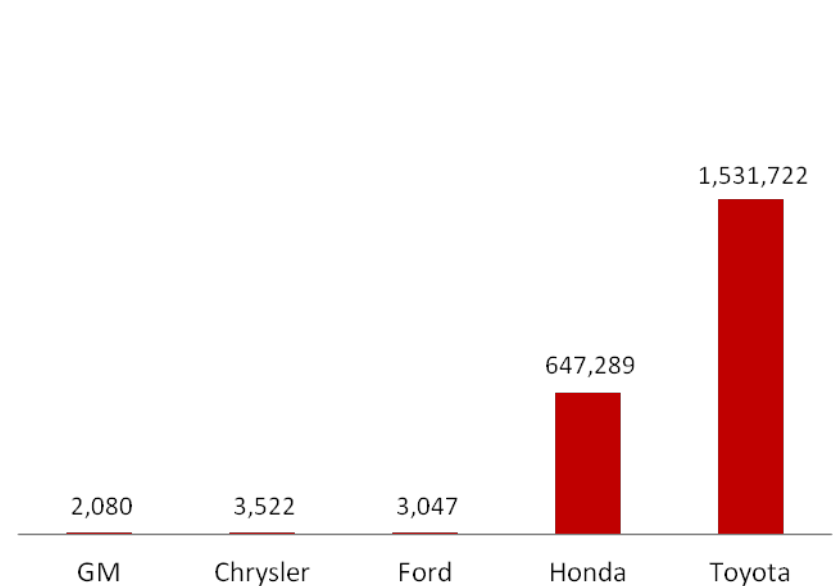
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Company-specific results in the U.S. demonstrate just how competitive our market is. Results in Japan demonstrate just how suppressed Chrysler, Ford and GM have been, and how far Japan still needs to go.

Annual Sales, U.S.



Annual Sales, Japan

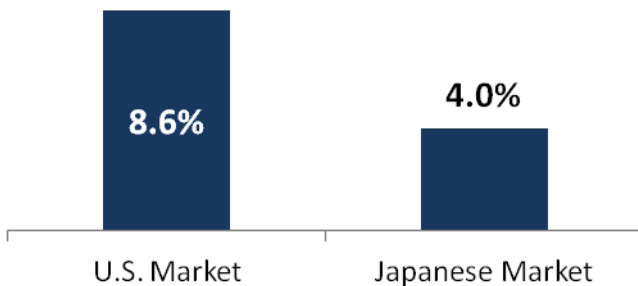


# ALL IMPORTS HAVE A DIFFICULT TIME SELLING IN JAPAN

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- Critics argue that American automakers have failed to open the Japanese market because they do not deliver on quality.
- First, Chrysler, Ford and GM beat foreign automakers on quality this year. (JD Powers)
- Second, if Japan's market has truly opened, why aren't globally popular brands, like BMW, Mercedes and VW (which together comprise nearly 8% of U.S. auto sales) able to capture half as much of the market in Japan?
- Similarly, why can't Korean automakers, which captured 7% of the U.S. market last year, capture a tenth as much in Japan?

**All European Automakers (2010)**



**All Korean Automakers (2010)**

