

ETRMA INPUT TO DG TRADE ON A POSSIBLE FUTURE TRADE AGREEMENT BETWEEN THE EU AND US

Brussels, 31 October 2012

Executive summary

- ETRMA welcomes the beginning of negotiations towards a trade agreement between the EU and the US.
- Despite significant regulatory differences, the US is the second market for tyre exports for the EU in all segments.
- ETRMA would welcome a dismantling of tariffs;
- Rules of origin should be based on the 'Change of Tariff Heading' (CTH) rather than on the 'Value limit rule of foreign content' (VL).
- Differences over tyre regulations proved to be impossible to remove as the US/DOT system and the EU/UNECE system are based on two different principles. However, current work within UNECE 1998 agreement is moving towards the definition of a Global Technical Regulation for passenger car tyres.

Introduction

ETRMA is committed to the removal of trade barriers and in particular NTBs through regulatory convergence. It is for this reason that ETRMA supports the initiative of the Commission to open a consultation on this matter and hopes that its contribution will be useful.

Regulatory Convergence

With regard to the tyre industry, as for previous consultations on possible FTAs, **ETRMA maintains that the Commission should promote regulatory convergence in obtaining its partners' commitment to recognise equivalence of local requirements with UNECE regulations** and furthermore to identify UNECE 1958 Agreement as the forum to develop new technical regulations related to automotive and components such as tyres. However, for the case of tyres, as it will be further explained below, previous negotiations showed the impossibility of the US accepting the UNECE system. Regulatory cooperation has therefore been moved to a multilateral level with the objective of developing a Global Technical Regulation within UNECE 1998 agreement.

Tariffs and implementation

Obtaining entire and reciprocal tariff liberalisation should be at the top of the priorities as well as building the agreement in a way that makes its enforcement and implementation easier and certain.

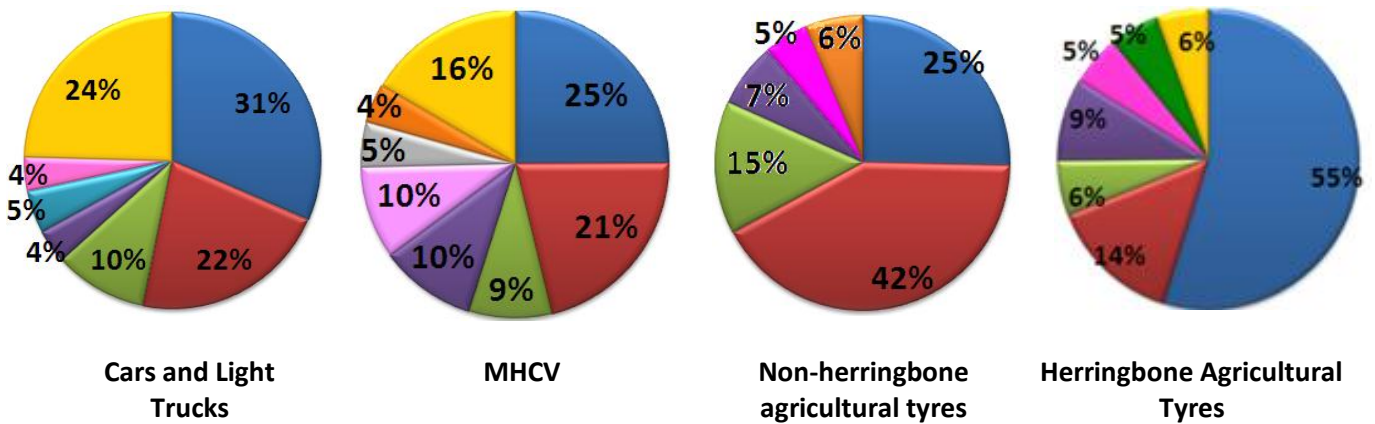
Rules of origin

Tyres are very complex products and are made of around 100 different materials, the value of many of which can vary significantly due market fluctuations (eg. raw materials). It is for this reason that the the ‘Value limit rule of foreign content’ (VL) cannot be applied to tyres. The ‘Change of Tariff Heading’ (CTH) should be used instead.

Finally, further to the conclusion of any FTA, **bilateral exchanges should continue regularly and frequently.**

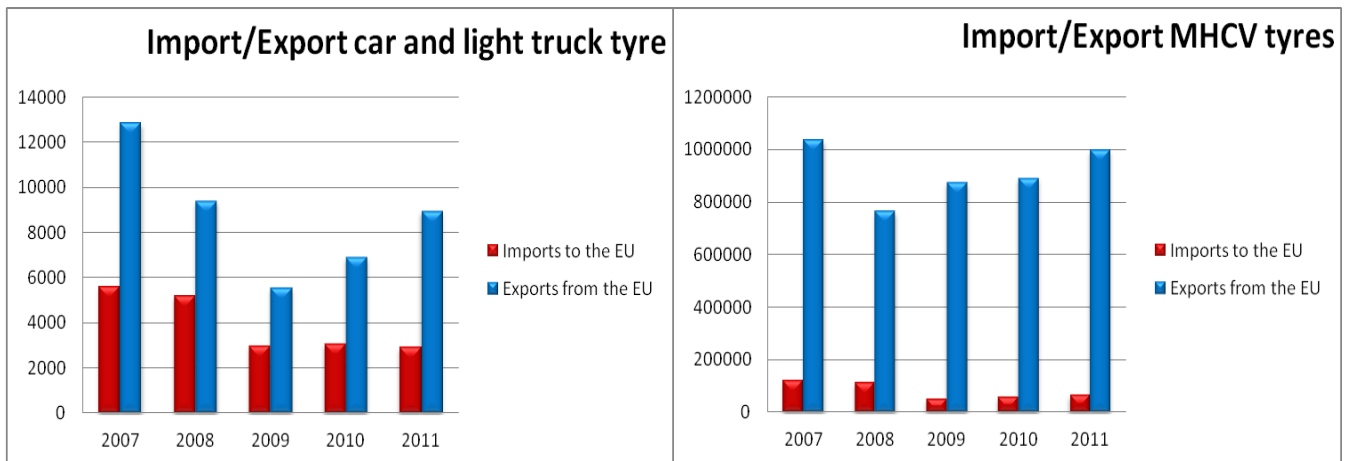
Introduction on EU-US tyre trade data

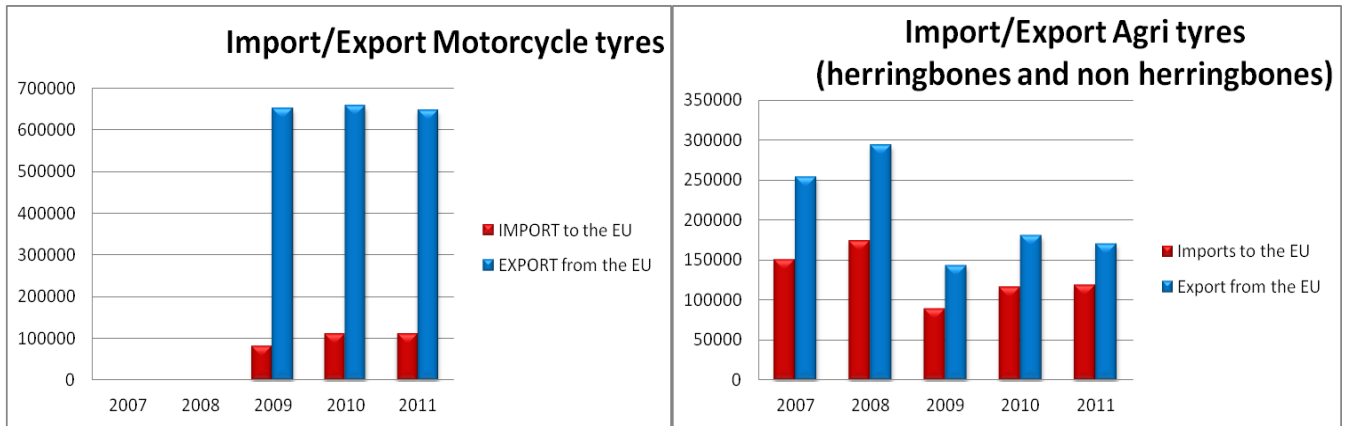
The US is the main market for export of European tyres outside the EU. The graphs below show the share of European exports between different countries in 2011.



■ Non-EU Europe ■ NAFTA ■ Turkey ■ Africa ■ China ■ Latin America ■ Middle East ■ India ■ Australia-New Zealand

Looking at the import/export trade balance between the EU and the US for the main tyre segments, we can see that the trade balance has been so far positive. However, both import and exports still have to recover from the 2009 crisis.





Import and export data show a high trade flow between the EU and the US, which could benefit from lower or 0% tariffs.

Code	Products	Export tariffs from the EU to the USA	Import tariffs from USA to the EU
4011.10	Car Tyres	3.4-4% ¹	4.5%
4011.20	MHV Tyres	3.4-4% ¹	4.5%
4011.40	Moto Tyres	0%	4.5%
4011.61/92	Agro Tyres	0%	4%

¹ Of Free-on-Board (FOB) value

EU-US Regulatory Situation

The US is the second most important destination for the EU tyre exports. At the same time, both countries have strongly divergent approaches to regulations and market surveillance.

The **US system is based on regulations promulgated by the DOT-NHTSA** (National Highway Traffic Safety Administration), while the EU one is based on UNECE 1958 Agreement regulations. The UNECE system is based on type approval, while that of the US is based on self-certification and strong market surveillance. There is currently no equivalence or reciprocal recognition between the UNECE and DOT/NHTSA systems, therefore the EU and US legislators might consider working in this direction.

The table below shows the correspondence between EU and US regulations on the main tyre segments.

TYRE SEGMENT	EU	US
PASSENGER CAR	UNECE R30	FMVSS139 and FMVSS109
COMMERCIAL VEHICLES	UNECE R54	FMVSS139 and FMVSS119

The only way to harmonise these regulations so far has been through **negotiations within the framework of UNECE 1998 agreement, with the expectation to conclude phase 1 of the Global Technical Regulation (GTR) for tyres in the middle of 2013**. This first phase concerns passenger car tyres. The second phase should tackle light commercial vehicles tyres, but the established timeline on this second phase; scheduled for completion at the end of 2014, is likely to slip.

The current GTR combines elements of UNECE and FMVSS regulations: several test requirements for passenger car tyres were unique to one or the other of the existing regulations and needed no harmonisation. These tests were simply included without change in the GTR for tyres. Other tests or requirements required extensive harmonisation during the course of the negotiations.

The principal economic benefit of this new regulation will be a reduction in the number of tests for the same or substantially similar requirements. Depending on how different Contracting Parties implement this GTR, there may also be benefits due to the way the certification markings are treated. If individual markings for different countries are replaced by a global mark, tyre mould design and fabrication can be rationalised.

What remains to be accomplished is for the EU/EC and the DOT-NHTSA/USTR to take cooperative bilateral leadership roles in promoting adoption of a “global tire” symbol, possibly via the efforts of UN/ECE/WP.29. Such a mark would be permanently marked on the sidewall of qualified radial passenger car and light truck (commercial) tires, signifying compliance with the requirements for GTR-tyres and all applicable performance and marking requirements as defined by US and ECE regulations. Such tires will be produced to the highest quality standards as contained in the soon to be finalized UN/ECE/WP.29 *“Global Technical Regulation, Harmonized Provisions Concerning Pneumatic Radial Tyres for Passenger and Light Truck (Commercial) Vehicles”*.

Conclusions

The most realistic way to overcome the current divergence on tyre regulations between the EU and the US is through the GTR process, rather than by seeking a bilateral agreement.

With regard to the possible future trade agreement, the following is recommended:

- **to include a commitment for support and cooperation in the GTR process;**
- **in addition to the implementation of GTR stakeholders should find a way to agree on a common marking for tyres complying with the GTR regulation in order to facilitate commercialisation of those tyres on both sides of the Atlantic;**

To these specific regulatory issues, the following general recommendations are given:

- **to lower/dismantle current tariffs;**
- **to base the Rules of Origin on the ‘Change of Tariff Heading’ (CTH).**