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## Could security issue derail U.S., Europe trade talks?

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There don't seem to any serious obstacles to the U.S. and the European Union (E.U.) concluding a plan for free trade in the automotive industry, but German anger over security issues could yet torpedo the talks.

Plans to free trade in the automotive industry are part of the overall Transatlantic Trade and Investment Partnership (TTIP) negotiations, a session of which was held this week in Brussels. Sources close to the talks say a deal is expected to be agreed by the end of the year by the negotiators. Parliaments and Congress will then take over to finally seal the deal.

As far as the automotive industry is concerned, trade is already pretty much free, with only a 2.5 percent tariff imposed by the U.S. on European-made autos, while the E.U. charges U.S. imports 10 percent. With Ford Europe and GM Europe, producing large numbers of cars already in Europe, removal of the tariff won't make much difference, although it could have huge implications for Japanese and Korean factories in the U.S., the so-called transplants. But representatives of U.S. and E.U. car makers have said regulatory differences for things like differing safety standards and designs of headlights or intensity of rear braking lights, add 26 percent to the cost of doing business, and nitty gritty talks about these technicalities will take some time to resolve. Harmonizing safety rules has big potential savings. Currently, popular vehicles on sale globally have to be re-engineered several times to meet different crash standards around the world. Rear seat passengers in the U.S. are said to be better protected than European ones, but nobody suggests that overall, it's safer to drive in cars in the U.S. than Europe, or vice-versa, yet billions of dollars are squandered every year meeting basically meaningless differences.

### Marginal savings

In 2011, E.U. car imports into the U.S. were worth \$25 billion, while the reverse business totaled \$6 billion, so even marginal savings will be worth making. E.U.-U.S. auto-related trade accounts for about 10 percent of total trade between the two regions, according to the European Automobile Manufacturers Association, known by its French acronym ACEA. BMW has said it would save \$550 million in duties every year if the U.S. and E.U. eliminated auto tariffs.

And there aren't many bone-headed mercantilists either in Washington or Brussels these days, and the benefits of free trade are widely acknowledged. Free trade allows a country to specialize in producing goods and services in areas that it excels in, and to use the money to buy goods and services that other countries produce at higher quality and lower cost than they do.

Professor Ferdinand Dudenhofer of the Center for Automotive Research (CAR) at Germany's University of Duisberg-Essen said both sides in the talks stand to benefit from concluding a free trade deal, which will bring down tariffs and other trade barriers like conflicting regulations. But he points to a possible smoking gun posed by the festering security issue.

## **Outrage**

German public opinion was outraged by the revelations from Edward Snowden last year that the U.S. National Security Agency (NSA) spied on its allies in general and tapped Chancellor Angela Merkel's phone in particular.

"Data safety and spying is a big issue in Germany. Because we assume the NSA is spying on German companies there's big mistrust over this issue. Therefore the U.S. has to explain very clearly how we can avoid these things. If we can make sure that there is no spying on our industry I think we are on a good road. However, that is a big condition," Dudenhofer said.

U.S. President Barack Obama is due in Europe later this month to talk about TTIP negotiations, although it might well take a backseat to by more pressing problems with Russia, or his audience with the Pope on March 27. Obama is in Brussels March 26.

Dudenhofer expects great things from the free trade talks.

"The E.U. wants to get close to the U.S. and President Obama is supporting this too. An agreement would help to bring down tariffs and other trade barriers including more homogenous homologation as well. That will make it easier to do business between Europe and the U.S.," Dudenhofer said.

Garel Rhys, emeritus professor of Motor Industry Economics and director for Automotive Industry Research at Cardiff Business School, points out that it will take no great leap to get to free trade.

"It's just a question of tidying up. It's not a great step forward if you are already 90 percent of the way there," Rhys said.

"By and large there are no really controversial problems, no imbalances of trade and capital flows in the way of Europe and the U.S. The relationship is nigh on perfect but there's always advantages in commonality for specifications and legal requirements, and the possibility of, say, another five percent in unit costs (saved) if you do this. There's always more to do, but these are not game changers," Rhys said.

## **Transplants benefit**

“If the 10 percent tariff goes, there will be no great influx, after all, Ford and GM are already here. But much more likely is the benefit for the transplants in the U.S. They might want to send more cars to Europe. I can’t see any potential roadblocks (in the TTIP talks), even the French aren’t likely to derail it. There is always the devil in the detail though and something might come in from left field,” Rhys said.

One area of possible controversy was new technology with fuel cell engines, electric power, diesels, and fuel consumption regulations, he said.

There is one arcane subject of potential dispute, with negotiators falling out of a clause know as Investor-State Dispute Settlement (ISDS), which allows foreign investors to sue host governments if they fail to meet agreed standards. This has united some disparate organizations, with the libertarian Cato Institute of the U.S. joining with the environmental lobby group Transport and Environment (T&E).

Dump ISDS, says Cato, because it is not essential to freeing trade.

Jos Dings, T&E director agrees.

Dings said the ISDS appeal system, relying on three arbitrators, one for each side and an independent third, is potentially opaque and undemocratic.

Dings is also sanguine about free trade in the European automotive industry, pointing out like Rhys, that it is well on the way already.

“It’s (U.S./E.U.) already pretty free with a couple of trillion (euros/dollars) of trade every year between the two,” Dings said.

Regulations in the U.S. on fuel consumption are quite different, but if U.S. companies want to sell in Europe, as long as their fleet average meets the standards, there’s no problem.

## **Rear view mirrors**

But Dings is skeptical about the promised scale of benefits which you could get from agreeing on the shape of rear view mirrors or brake pads, or the intensity of brake lights.

“Benefits of 500 euros (\$700) a year for each family in Europe, all these grandiose statements. That’s an enormous sum from the realignment of regulations. If you ask them where these benefits come from, you get complex and not very convincing answers,” Dings said.

CAR’s Dudenhoefter feels that benefits can be substantial, if the security issues can be resolved.

“It is important for Europeans to have good access to the U.S. market and the same applies to U.S. companies. Look at some of the technology coming up like automated driving and the software needed to accomplish that with companies like Google and Apple pursuing connected

car technologies. It would be a win-win for Europeans and the U.S. car industry and harmful to both sides if (TTIP) talks would not be successful,” Dudenhoeffer said.