

U.S. Department of Commerce Automotive Roundtable (9/4/2003)

The International Trade Administration and Technology Administration hosted a Roundtable on Automotive Industry Standards on September 4, 2003 from 10:40am to 1:00pm in HCHB, Room 4830. Deputy Assistant Secretary (DAS) for Transportation and Machinery Joseph Bogosian moderated the roundtable. Assistant Secretary (A/S) for Trade Development Linda Conlin, Deputy Under Secretary (D/US) for Technology Administration (TA) Benjamin Wu and Executive Director for Trade Development in the International Trade Administration (ITA), Jonathan Menes, co-hosted the roundtable.

Following DAS Bogosian's summary of Secretary Evans' Eight-Point Standards Initiative, D/US Wu outlined the standards-related work done by the Department's National Institute of Standards and Technology (NIST) to reduce barriers to trade. Jon Menes commented that the ITA has noticed that standards increasingly are becoming barriers to trade, are hurting the competitiveness of U.S. firms in some cases, and are inhibiting global economic growth. Consequently, standards have become a priority at the Department. Menes also mentioned that Heidi Hijikata had been chosen as ITA's Standards Liaison.

Ms. Conlin noted that ITA is working with other government and regulatory bodies to address market access concerns, and to monitor compliance with the WTO agreement on technical barriers to trade. She stressed that ITA wants to work closely with industry to ensure the Department is advancing industry's positions on the issues when negotiating with foreign governments.

Following the introductory remarks, representatives from six trade associations addressed the group. The key points of each presentation are summarized in the following paragraphs.

Motor and Equipment Manufacturers Association (MEMA)
Brian Duggan, Director, International Programs

MEMA was founded in 1904. It represents and serves about 700 manufacturers of motor vehicle components, tools and equipment, automotive chemicals, and related products used in the production, repair, and maintenance of all classes of motor vehicles. MEMA's three market-segment associations serve all of the motor vehicle supplier industry: Aftermarket - Automotive Aftermarket Suppliers Association (AASA); Heavy Duty Vehicles- Heavy Duty Manufacturers Association (HDMA); and Original Equipment - Original Equipment Suppliers Association (OESA). In addition to their headquarters in Research Triangle Park, North Carolina, MEMA has offices in Troy, Michigan, Washington, D.C., and Mexico City, Mexico.

Presentation Summary:

MEMA participates in Working Group 29 (WP29 - the working party under the United Nations responsible for overseeing the 1958 and 1998 Agreements, promoting global automotive standards harmonization) meetings in Geneva, as well as with Julie Abraham, Director of International Policy and Harmonization for the Department of Transportation's National Highway Traffic Safety Administration, regarding standards and regulations. MEMA is also working with Japanese (JAPIA) and European (CLEPA) associations on standards and

regulations. Most of the focus has been on specific regulatory issues rather than standards harmonization. The associations will be holding their next meeting on October 23, 2003, at which harmonization will be discussed.

MEMA's focus on harmonization, and trade problems dealing with harmonization, has been funneled through either the U.S.-based Society of Automotive Engineers, or through the members' customers, i.e. the vehicle manufacturers (referred to in the industry as "original equipment manufacturers" or "OEMs"). While automotive parts companies have taken on more engineering roles in vehicle design and production, the suppliers have to coordinate their standards position with the OEMs, regarding both global harmonization, as well as individual trade problems.

Alliance of Automobile Manufacturers (The Alliance)
Vann Wilber, Director Safety and Harmonization

The Alliance of Automobile Manufacturers, Inc. is a trade association composed of 10 car and light truck manufacturers with about 600,000 employees at more than 250 facilities in 35 states. Alliance members account for more than 90 percent of U.S. vehicle sales.

Formed in 1999, the Alliance serves as a leading advocacy group for the automobile industry on a range of public policy issues. Open to all new car and light truck manufacturers, this industry association is especially committed to improving the environment and motor vehicle safety. Through the Alliance, members are able to convey this commitment as well as the industry's accomplishments and its positions on issues to the public, government, media and other interested parties.

Presentation Summary:

Wilber began his presentation by noting that interest in standards harmonization is at an all time high among automotive companies. Automotive regulations are extremely complex and highly technical, and as such even small issues can act as market access barriers. He stated that, given the global nature of the industry, issues that arise in other parts of the world directly impact U.S. manufacturing (e.g. although the United States does not focus on pedestrian protection regulations, the EU does, which impacts the U.S. auto companies' domestic design and production decisions).

The Alliance has proposed a new strategy for global harmonization, which is meant to compliment harmonization activity already underway. The new strategy is referred to as the "Two Standards World." In short, it proposes that all countries should converge on the use of either U.S. or EU standards. This would serve as an interim step toward total harmonization, with the final step of bringing the two remaining systems into alignment. Wilber noted that this process is already underway informally, but that the endorsement and active encouragement of the process by the USG would go a long way towards making it successful.

Another area of emphasis in Wilber's remarks was the need for greater transparency in the regulatory process in foreign countries. He noted that this was a particular area where he felt

DOC could become more active. Often, foreign countries develop new regulations in a non-transparent fashion, with little or no public input. In these instances, both the reasoning behind regulations, and the logic for the particular method of implementation often is unclear. Wilber feels that the allowance of expert industry involvement early in the process would benefit both the industry and the foreign countries involved.

Wilber expressed appreciation for past USG actions on standards issues, noting successes with an automotive MOU with Russia, and for activity under the Trans Atlantic Business Dialogue (TABD) that led to the 1998 Global Agreement. He concluded by noting five specific recommendations for the USG:

1. Include efforts specifically aimed at global harmonization of automotive standards in the new DOC standards initiative.
2. Educate other governments on the principle of "Two Standards World."
3. Clearly identify industry priorities (i.e. specific areas to regulate) and advance these concerns in UN Working Party 29 (which administers the 1958 and 1998 Agreements).
4. Encourage all countries to join Working Party 29.
5. Focus on transparency as a key concern.

Specialty Equipment Market Association (SEMA)
Linda Spencer, Director, International and Government Relations

SEMA was founded in 1963. It has 5,222 member companies representing the \$27 billion specialty automotive industry, purveyors of primarily aftermarket appearance, performance, comfort, convenience and technology products for passenger cars, minivans, trucks, SUVs and recreational vehicles.

Presentation Summary:

Over the last three years, SEMA has seen a barrage of new standards, many dealing with wheels, in Europe, Mexico, and Venezuela. About 2 years ago, the Mexican government proposed to enact a new wheel standard that deviated from the existing, internationally recognized ISO wheel standard. SEMA did a comparative study of the ISO standard and the "tweaking" deviations that the Mexicans have proposed, and found that one would have to manufacture specifically for the Mexican market under the proposed wheel standard. That would eliminate most foreign competition because the local wheel market (about \$20 million annually) is just too small to justify the extra expense that would be necessary.

While SEMA was not given advance notification of the Mexican proposal, SEMA representatives were able to meet with Mexican officials to object to the proposal before it was enacted. Mexican authorities subsequently acknowledged that the proposal represented a major change in the status quo and decided to start over. SEMA and the USG received prior notification and were able to submit comments before the announced deadline. In addition, COFEMER, the Mexican Commission for Regulatory Improvement of the Mexican Government, registered its own objection, noting that the proposed new standard was not necessary, and that it does not appear to be related to a genuine safety issue.

Domestic Mexican manufacturers apparently tabled the original proposal. They currently supply about 30 percent of the local wheel aftermarket, while imports account for the balance. Because U.S. manufacturers meet ISO wheel standards, no product they offer in Mexico is unsafe. Clearly, this is not a technical, nor a safety issue, but merely an attempt to erect a trade barrier. In fact, SEMA was told that a couple of months ago, a Mexican manufacturer publicly stated that there shouldn't be any modifications to the original proposal because it is meant to protect the Mexican producers. Despite this clear acknowledgment of the proposal's intent, the Mexican government seems to be moving forward with the proposal. The concern is that the market was opened by NAFTA, but now Mexican entities are trying to block access for U.S. wheel manufacturers.

SEMA is concerned not only about the Mexican market, but also that this might set a precedent in other countries. This appears, in fact to already be occurring. For example, in the past year Venezuela has issued a wheel standard very similar to the Mexican proposal. Venezuela enacted the standard without a public comment period, and did not notify the WTO until after the fact.

The European approach to standards can also serve as an unintended barrier to trade (both domestic and international). A wheel standard on the table for discussion would have banned other than OE sized wheels. As 95 percent of aftermarket wheels fall outside this definition, the market, as we know it would have been decimated. Working with local interested parties, the draft was changed so that the regulation of specialty wheels would be left out of this document and continues to be under the oversight of individual nations.

SEMA wants to draw attention to clear trade barriers like in Mexico and Venezuela and to mention the inadvertent trade barrier in Europe. SEMA would like to work with the USG to address these issues.

Automotive Trade Policy Council (ATPC)
Steve Collins, President

The Automotive Trade Policy Council Inc. (ATPC) is a Washington, D.C.- based non-profit trade association representing the common international economic, trade and investment interests of its member companies - DaimlerChrysler Corporation, Ford Motor Company, and General Motors Corporation. ATPC is active in such areas as the WTO negotiations, the Free Trade of the Americas Agreement (FTAA), and the U.S./Australia FTA. In each of these areas, standards activity is a priority area of focus.

Presentation Summary:

Collins noted that the roundtable and the DOC initiative are very timely. The Automotive industry is increasingly moving from a series of national markets to one global market. This increases the need to remove standards issues as potential trade barriers. He echoed Wilber's remarks about past USG successes, including the TABD work that led to the 1998 Global Agreement. ATPC supports an expanded role for the Department in standards work in the USG interagency process. In particular, ATPC would like to see the Department continue or expand its roles in two areas: communicating the impact of domestic regulatory changes on the global

market; and being an advocate for U.S. industry regarding market access problems involving standards.

He made four recommendations for the Department:

- (1) Continue to work with U.S. industry on bilateral (i.e. with foreign governments) issues.
- (2) Proactively seek to bridge the gap between the Department, NHTSA, and USTR on standards issues.
- (3) Take the success of the TABD forward to continue promoting standards harmonization.
- (4) Develop an interagency consensus to push activity in WP29 at a faster pace.

Association of International Automobile Manufacturers (AIAA)
John Cabaniss, Director, Environment and Energy

The Association of International Automobile Manufacturers is the voice of international automobile manufacturers in Washington, D.C. AIAM supports free trade and open investment policies; promotes sound laws and regulations in the areas of motor vehicle safety, emissions and fuel economy; maintains a state-of-the-art information system containing information on developing matters critical to a competitive automobile industry; and partners with the entire auto industry on issues of shared interest.

Presentation Summary:

Cabaniss observed that the main problems he sees for environmental regulation at present are a lack of global uniformity, obsolete standards in several countries, and a lack of standards in many countries. He also noted that a separate, but related, issue of importance is fuel quality and fuel regulations.

He described three main global venues where environmental regulations are discussed:

- (1) WP29 - He rated this as the most important venue, and noted that EPA and NHTSA are actively involved.
- (2) Worldwide Fuel Charter - Automakers worldwide participate in setting guidelines for fuel standards to coincide with stringency of applicable vehicle emissions standards.
- (3) Partnership for Clean Fuels and Vehicles - This relatively new group (first met in 2001) has about 58 members, including 20 governments, 20 industry representatives and 11 NGOs. The focus is on the elimination of the use of lead additives in gasoline and the improvement of overall fuel quality by reducing sulfur content in fuel.

Cabaniss recommended four areas for the Department's assistance:

- (1) Maintain a dialogue with industry (such as the standards roundtable).
- (2) Support the work of EPA and NHTSA.
- (3) Pursue functional equivalence of environmental standards with other governments, and stress this activity more in WP29.
- (4) More actively pursue the harmonization of testing procedures.

Society of Automotive Engineers (SAE)
Jack Pokrzywa

SAE has over 83,000 engineers, business executives, educators, and students from more than 97 countries. It shares information and exchange ideas for advancing the engineering of mobility systems. More than 16,000 volunteer leaders serve on SAE's Board of Directors and its many other boards, councils and committees. SAE's technical committees write more new aerospace and automotive engineering standards than any other standards-writing organization in the world.

Presentation Summary:

Pokrzywa noted the changing nature of the automotive industry, and the increasing momentum towards consolidation and globalization. This process increases the importance of standards harmonization, and the removal of standards as a factor inhibiting trade. He highlighted the differences between the EU and U.S. regulatory systems, noting that in the EU, government and industry work together efficiently to develop standards and regulations. He described the situation in the United States as more fragmented. He noted that most nations already are moving to adopt ECE standards, which can lead to increased competitive pressure on U.S. industry.

Pokrzywa suggested that the United States needed to get more U.S. experts involved in international fora where automotive standards work takes place. He also recommended that the USG work on an "early warning system", to help identify standards problems in foreign countries before they become problematic.

GENERAL DISCUSSION

Following the association's presentations, a productive and lively discussion ensued among panelists and members of the audience. Key points are summarized below by topic:

Standards and the manufacturing process:

Mike Taubitz, a General Motors employee representing the Automotive Industry Action Group (AIAG is an industry trade group representing original equipment manufacturers and 1600 suppliers), spoke on the occupational health and safety end of manufacturing. Manufacturers are trying to achieve common global processes and systems within manufacturing facilities, using ISO, IEC or other accepted international standards. The trade impact of standards is often in the costs of the manufacturing of the product. Standards can cause manufacturers to retrofit and change their systems. For example, just in the last couple years, the health and safety steering committee of AIAG, put together a group to deal with the emerging EU "End-of-Life-Vehicle" (ELV) regulation, which requires OEMs to recycle about 85 percent of a given vehicle's parts by 2015. The early estimates on the regulatory impacts are already in the multi-billion dollars for U.S. automotive manufacturing.

He also noted that the United States has been successful when there is early identification of an issue and the opportunity to participate in voluntary standards with the right technical experts. If manufacturers are able to get in early on the process, they are often successful. As one looks back on the last 20 years on emerging issues, the gestation period of emerging issues is often 10-

15 years before it gets onto the "radar" of top management. This is the case with this EU ELV regulation on chemicals. It began back in the early 1990s, but by the time the U.S. manufacturers have begun to deal with it, the "war" is almost over.

He concluded by saying that U.S. manufacturers have not had the early warning system about which several speakers had spoken, which would allow issues to get on the management radar screen where the technical experts can give input. When standards go out for public comment, it is often too late. As a result, hundreds of millions or billions of dollars of cost are added on, driving up the cost of the end product. He requested that as the Department of Commerce goes forward and deals with the standards for the automotive industry, it also address the manufacturing end of the business and include health and safety issues.

China:

DUS Wu noted that Secretary Evans would be traveling to China in the near future, and asked the panelists to comment on any China specific standards issues. In response, Steve Collins noted that China is in the early stages of developing its regulatory system, and there are early indications of problems. He observed that they seem to be developing a unique system (different from both the U.S. and EU standards). He requested an opportunity to come in and brief DOC officials before the Secretary's trip.

Vann Wilber noted that the GOC seems to be trying to meet its WTO responsibilities. At the same time, however, China seems to look at existing international regulations and then apply those portions of them that make sense for their environment. This can lead to a fragmented system that creates problems. Wilber also noted that U.S. industry doesn't understand the Chinese system, or even with whom to talk to try to influence decisions on standards. The automotive sector has a very keen interest in China and issues related to regulatory standards development is at the top of the wish list of almost every automotive maker. There are a number of developments going on in China related to the automotive sector this year on a broad basis, as well as on a standards setting area. One ministry has proposed a whole new auto industrial policy for China. It is unclear what the status of this proposal is, but it is getting attention worldwide. No one is drawing conclusions from this yet, but as drafted it is alarming. Commerce officials should seek out and discuss auto policy issues whenever they can while in China.

In response to a question from DAS Bogosian, Steve Collins agreed that a reinvigorated automotive working group under the Joint Committee on Commerce and Trade (JCCT) would be helpful, noting that there were many automotive issues with China, going well beyond standards. Responding to the comment on finding appropriate Chinese delegates with whom to discuss automotive requirements and standards, Carl Simon from the EPA noted that China has been sending fairly high-level delegates to WP 29 meetings for the last 3 years and it would be worthwhile to explore avenues to talk with them directly, as opposed to member organizations.

Mexico-Venezuela:

Jon Menes directed a question to Linda Spencer, asking if the Technical Barriers to Trade (TBT) Agreement could adequately handle the wheel issue she had raised. Spencer noted that the

wheels issue is an out-and-out trade barrier issue. SEMA is working with the Department of Commerce. There was advance notice on the second round in Mexico. The problem is that the Mexican Government has not taken the U.S. Government seriously. They have not responded to a letter from the USG. The bottom line is that the United States needs to figure out how best to deal with them high enough in the USG level when these things come up. Is the wheel standard a technical issue? Or is this political? And how best to deal with it? In the case of Venezuela, Venezuela did not announce their standard until after it was put into effect. Venezuela is required to give the USG a justification for these standards and have not come forth and done that. SEMA is working on two fronts. First, to find a way to address these standards. The more time that Mexican or Venezuela invest in it, it becomes more public and harder to defeat. Second, to figure out the strategy to address these standards. There are going to be a lot more standards. So that is the next phase that needs to get into at a high enough level at the Department of Commerce. She stated that there is an incredible cost to fighting each of standard individually. There should be advance notification and strategies to address. The first step is to acknowledge that these can indeed be trade barriers.

Regulatory Fragmentation:

Jon Menes asked Jack Pokrzywa for further clarification about the "fragmentation" of the U.S. regulatory system. Pokrzywa noted that abroad; there is often no clear understanding how our system works. There are 270 Standard Development Organizations (SDOs) in the United States, and each one wants to do some good. The picture sent abroad is that there are so many different players, the question is - what is the U.S. Government doing? With so many different players, observers wonder what is the central point that pulls together all the mass. For example, the auto industry is now heavily influenced by electronics. SAE and IEEE are doing standards work, and on materials side you have SDM and SAE and three or four other ones that are involved in automotive standards development. There is a lot of replication, not enough harmonization within the United States. There maybe an intention and desire to harmonize, but there is a business model that ties organizational revenue streams to the development of standards in some cases. Some are less into that, SAE is very little in fact, but some are 80% dependent upon the development of standards for revenue.

Vann Wilber also commented on this topic. He noted that all the simple regulations and standards have been done; now they are getting very complex. It has gotten to a point that industry is looking at very advanced technologies, very smart cars, highly computerized, lots of sensory inputs, vehicle-to-vehicle communications schemes. All these need some level of standardization. It is difficult to determine which SDO should oversee which standard. More and more the industry is looking to have a direct role in standards development, instead of relying upon other SDOs. But that is not right. Often, industry representatives do get together and consult on what element of standard development they want to involved with and go to SAE, which is kind of the home base, and attempt to establish a U.S., North American, or ideally global position through a standards organization. He noted that, if one was looking at the U.S. from outside and was trying to get, for example, short-range vehicle radar specifications, it would be difficult to tell what organization in the U.S. was responsible for the standard. This is probably a case-by-case basis, but there are vehicle-based technologies that need standardization

both in the US and globally. The USG might be able to take a look and see how to help to pull that together.

Voluntary Standards:

Jon Menes asked the panelists if there were areas involving new technologies for which voluntary standards were a better choice than mandatory standards. In response, Linda Spencer noted that SEMA surveyed its European members, asking how concerned they were with standard making, and with other things that impede trade and local sales. Their interest level was very high, a change from four years ago when SEMA couldn't engage them on the issues. There are increased regulations on every aspect- front end, pedestrian safety, etc. Whether it is EC or individual countries, which are already so highly regulated, it seems like it is a race to create new standards.

Vann Wilber asked if the U.S. has done enough to promote abroad the credibility of voluntary standards and its benefits. He noted that there are two fundamental obstacles outside the United States. One is that the "live free or die" American psyche doesn't play well in other regions. The other issue is the concept of overt government control associated with type approval. Other countries will look at what you do, how you do it, how you design it, how you test it, etc., and give you an official stamp of approval before production commences. In the United States, even on the EPA side - where they issue a government certificate of compliance - conformity is 99 percent self regulated. If a firm certifies that it has met the standard, the government accepts it, although it may later test to determine conformity. If non-compliance is determined, then the government can punish. That is an alien concept outside the United States. He also noted that many standards testing agencies in Europe are private entities. They want to test products, attending standards/regulatory proposal meetings to figure out what is in their own best interests.

Next Steps:

In response to DAS Bogosian's request for suggestions on next steps for the Department, Vann Wilber related an example of an ideal situation, involving NIST and the Saudi Arabia Standards Organization. The Saudi standards organization was developing a regulatory framework that was to be adopted regionally, not just in Saudi Arabia. The region is an enormous export market for US products. NIST formed an industry roundtable including Ford, GM, GE, and other large companies, all of whom contributed to the cost of the initiative, which included having a representative in territory, meeting with Saudi government officials, and interfacing directly with the sector of interest, in this case, automobiles. So, as soon as the thought process started in Saudi Arabia, we had some input, and things didn't fester 15-20 years before the USG became involved. This is a success story where a country accepted U.S. standards and U.S. certification. That is the kind of grass roots participation that is very important.

DAS Bogosian noted that it is important for the USG to hear success stories like that so we can put them into a model. We want to institutionalize approaches that will outlast us. Each administration comes and goes we might be able to institutionalize procedures so they will outlast one individual or administration.

Brian Duggan related another anecdote as potentially instructive and cautionary, involving a case on which MEMA worked for several years with the Mexican authorities. MEMA was seeking Mexican adoption of USDOT's Federal Motor Vehicle Safety Standard 108, a particular aspect of the U.S. lighting standard. Mexico liked the standard from a technical viewpoint, but said they couldn't act on it because they wouldn't be able to enforce the standard. Duggan suggested that, somewhere in the standards process, when U.S. companies meet resistance or problems regarding issues that are not bona fide trade barriers or intentional impediments, perhaps Commerce or DOT could have a capacity building role, helping the foreign government build their regulatory structures. Ideally, we would have input into what regulations they are going to develop and also in their ability to enforce them and how they are going to enforce them.

Final Comments:

In closing, DAS Bogosian noted that the development of the standards initiative is an ongoing process and that the Department looks forward to receiving any additional input from the automotive industry. (Heidi Hijikata is the Trade Development Standards Liaison officer and the major point of contact.) Relying upon today's comments and any additional submissions, plus advice being provided by other sectors, the Department will prepare a report of recommended actions, possibly by January 2004. Both the standards initiative and the manufacturing initiative are intended to make the Department of Commerce more responsive to business and more effective advocates on industry's behalf.