

Report of the 20th APEC Automotive Dialogue

Beijing, People's Republic of China, April 23-25, 2014

The 20th meeting of the APEC Automotive Dialogue (AD) was held in Beijing, People's Republic of China, on April 23-25, 2014. The meeting was attended by government and industry representatives from China, Indonesia, Japan, Korea, Malaysia, the Philippines, the Russian Federation, Chinese Taipei, Thailand, the United States of America, Viet Nam; the Society of Indian Automotive Manufacturers (SIAM) participated in the meeting as a guest.

AD-20 meeting papers can be viewed at aimp.apec.org.

1. Welcome & Opening Remarks

The 20th Automotive Dialogue meeting has received support from the Ministry of Industry and Information Technology (MIIT) of China and the Municipality of Beijing. The MIIT Vice Minister Mr. Su Bo, Beijing Municipality Deputy Secretary Chief Mr. Zhu Yan, and AD chairman Wang Fuchang, Inspector of Equipment Manufacturing Industries, attended the opening ceremony and delivered welcoming remarks. It is the second time in 10-years that China hosted the APEC AD conference and there is an improvement of the forum and its agenda as noted by the participants. The officials of the host economy expressed their hope that the AD will contribute to promoting green vehicle products, technology, trade and investment convenience, as well as developing a sustainable automotive industry.

2014 AD Chair Wang Fuchang, Inspector of Department of Equipment Manufacturing Industry of MIIT, opened the meeting by welcoming the delegates to the first APEC AD meeting in 2014. He briefly reviewed the results of 19th AD conference emphasizing the need for closer contact with CTI. He outlined the theme of the 2014 AD which is Green Ambition, Win-Win Cooperation, and suggested that the AD could make a greater contribution for promoting green vehicle products, technology trade and investment convenience, and a sustainable auto industry.

Mr. Su Bo emphasized the significance of the auto industry for the development of the integrated economy of the Asia-Pacific region, and suggested to continue the efforts aimed at perfecting cooperation, upgrading industry regulations and insuring regulatory consistency, promoting trade and investment in green vehicle products, boosting the R&D and promoting new and energy-efficient products. Mr. Zhu Yan delivered his welcoming remarks, talking about the experience, results and future steps in promoting new energy vehicles in the city of Beijing.

The experts from the Ministry of Commerce of China and APEC SMEWG updated the delegates on the APEC Priorities in 2014 and CTI/SMEMM tasks.

Mr. Chen Chao from Ministry of Commerce of People's Republic of China, briefed the AD on the China 2014 APEC year progress and priorities. He introduced the theme and priorities of APEC 2014. The theme is shaping the future through Asia-Pacific Partnership, with three sub themes: advancing regional economic integration, promoting innovative development, economic reform and growth, and strengthening comprehensive development in infrastructure and connectivity. The core agenda of the trade and investment priorities includes supporting MTS and Opposing Protectionism, Promoting Regional Economic Integration, Enhancing Cooperation on Global value chains & supply chains, and strengthening ECOTECH.

Mr. Chen Xin from the APEC SME Ministerial Meeting organizing committee briefed the AD members on the main activities of SMEWG during 2014 APEC. The main theme is Innovation and Sustainability. The priority areas include building Management Capability, Entrepreneurship, Innovation; financing; business environment, market access, and Internationalization. SME development is considered extremely important for the automotive industry in the Asia-Pacific and partnering with SMEWG on a number of industry-related issues has been agreed as one of the priority directions for cross-fora cooperation of the AD.

2. APEC Update and Project Development Report

The APEC Secretariat Program Director briefed the participants on the Project activities of the APEC in 2013, project-related issues and changes made in the Project Guidebook in early 2014. The participants noted the importance of the project activities as an indicator of the AD's effective and proactive work and discussed the possible cross-fora collaborations and potential Concept Notes to be submitted later this year.

The Program Director briefed the delegates on the plans to establish the Remote Participation system to enhance, complement and improve the off-line meetings.

3. Subjects & Activities

On April 22 delegates of APEC Automotive Dialogue were invited to participate in the 2014 Auto Forum organized by MIIT. More than 1000 people attended the meeting, including Chairman, Vice Chairman and Secretary General of OICA, experts of World Economic Forum, officials of the Chinese government, CEOs of domestic and global automobile corporations, expert speakers and scholars. The Forum created a platform for exchange and communication on industry

development between China's auto industry and the world's auto industry, public-private partnership, and establishes links between the auto industry and all sectors of society.

On the afternoon of April 24, the organizing committee arranged a visit to the 13th Beijing Auto Show for all the AD delegates. The theme of 2014 Beijing international automotive show (21 -29 April) is "Driving To Better Future". The 17 exhibition halls together with the outdoor venues provide 230,000 square meters of the space filled with 1,134 display vehicles with 118 of the cars had their world premiere during the show.

The Beijing Auto Show demonstrated that EVs are one of the important trends in the global auto market – the New Energy and Energy-efficient vehicles form a significant part of the exhibited range.

Market situation

China, Korea, Indonesia, Japan, Malaysia, Russia, the Philippines, Chinese Taipei, the United States, Thailand and SIAM reported on Automotive Production, Sales and Trade in 2013, and presented a forecast for 2014.

Market Access / FTAs

China, Korea, Japan, Malaysia, Thailand, the U.S. and Russia provided updates on the existing agreements and ongoing FTA negotiations, both within the APEC region, including the China-ASEAN FTA, China-South Korea FTA, China-Japan-Korea FTA, Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership.

Regulation and Standards

China reported on the participation in the harmonization of international standards and regulations on electric vehicles, including the activities in EVS and EVE at the United Nations Working Party 29 (UN WP.29), the proposals by the ISO and IEC, and bilateral communication and cooperation. China is getting more and more involved in the global harmonization of vehicle standards and regulations and would like to continue work on implementation of the international regulations and standards based on actual domestic needs. China also expressed its will to contribute to the development and harmonization of the international standards and regulations in cooperation with other parties and industry players.

China also reported on the status of the energy-saving standards and relevant administrative measures implemented and latest developments of the standards of automotive energy-saving, highlighting China's experience in the international cooperation and exchange during the development of such standards.

Korea explained domestic vehicle certification system and provided updates on the harmonization of technical regulations (KMVSS) with global regulations such as UN/ECE and GTRs.

The U.S. presented updates on UN WP.29 regulations, including the two working groups: EVs and Environment (EVE) and EVs Safety (EVS). On EVS, the U.S. announced that the fifth meeting is scheduled for May 13 - 15, 2014, in Washington DC. The U.S. Department of Transportation will host the meeting. The next EVE meeting is scheduled for June 2, 2014, in Geneva.

Chinese Taipei reported its harmonization of the UN Regulations. It has introduced 52 UN Regulations, and the additional 18 UN Regulations will be classified into 3 groups and be studied and discussed from this year. Chinese Taipei will keep following the development of the UN Regulations to formulate and to revise as necessary.

The U.S. presented on energy security, fuel consumption and CO2 regulations in Asia Pacific. It was noted that there is a global CO2 stabilization challenge and an additional energy security challenge in the Asia Pacific. Addressing climate change, air quality and energy security issues in the region will require the involvement of all stakeholders. Automakers are doing their part by introducing a range of technologies to improve efficiency and reduce exhaust emissions. Fuel efficiency/CO2 regulations are being adopted across the world with different requirements. It is important that these regulations include credit banking/transfer provisions to allow flexibility for manufacturers to manage fleet compliance; Offer balanced policy solutions that are rooted in science; Align policies, price signals, incentives and consumer information; Take into account market requirements such as affordability while fully meeting customer expectations.

The U.S. American Automotive Policy Council (AAPC) presented on the acceptance in the Asia Pacific region of both U.S. (FMVSS) & EU (ECE) certified vehicles. The U.S. and EU represent two longstanding equally robust sets of existing vehicle safety and environmental regulations, and that many economies maintain policies that accept vehicles certified to both U.S. and EU safety and environmental regulations. Accepting both meet the highest safety & environmental standards, offers state-of-the-art technologies from around the world, provides consumers with a greater variety of products at a lower cost, and avoids disruption of the automotive trade. The U.S. presented several examples of APEC economies that accept both US and EU auto standards. It is expected that both the UN WP.29 GTR process and the Transatlantic Trade and

Investment Partnership (TTIP) negotiations will help lead to a less fractured global auto regulatory environment. It was proposed that in the meantime, economies in the APEC region should maintain regulatory policy that accepts vehicles certified to both U.S. and EU safety & environmental regulations.

On the proposal from the U.S. on accepting both U.S. and EU regulation system, China noted that it supports and participates actively in the establishment and harmonization of GTRs, and that all parties should put more efforts into these tasks for the establishment and harmonization of GTRs.

In response to the U.S. proposal, Japan remarked that “The United Nations’ Working Party 29 remains the world forum for global harmonization initiatives, including the formulation of international vehicle safety and environmental standards as well as the creation of mutual recognition schemes. Regarding the U.S. proposal, one concern is that the FMVSS are U.S. standards designed specifically to reflect circumstances in the U.S. Another concern is that the APEC economies had no opportunities to participate in the formulation or revision/updating processes for these regulations. Accepting the FMVSS for APEC economies and their circumstances would therefore be difficult, if not impossible. Japan’s position is that the UN’s WP.29-administered 1958 and 1998 Agreements should serve as the world’s platform for standards harmonization and mutual recognition of type approval. APEC member economies that become signatory parties to the Agreements will be able to participate directly in the formulation, revision/updating and approval processes for harmonized standards, and would also benefit from the knowledge and insights gained through such participation.” In response, the wide open nature of the FMVSS regulatory development process, including regular input from other interested countries and industries, was noted by the U.S.

Japan reported on the progress of IWVTA activities and the revision of the 1958 Agreement. In March this year, the basic concept of IWVTA was endorsed by, and draft revisions of the 1958 Agreement submitted to, WP.29. The formal procedure for amending the 1958 Agreement will start in June 2015, with enforcement of the final revised Agreement expected in March 2016. The UN R Zero regulations for IWVTA are to be finalized in June 2015, and IWVTA approved by March 2016.

Japan also explained in its regulatory update that its fuel efficiency standards are formulated using the “top runner” method enabling the establishment of standards that are technologically achievable. Tax incentives require compliance (or better) with the standards, which each represent average fuel efficiency for their different vehicle weight categories.

Russia provided information about National Vehicle Compliance Assessment System in the Russian Federation. Participants of the APEC AD were informed about technical regulations of

the Customs Union and main differences between technical regulation of the Russian Federation and technical regulation of the Customs Union.

Russia has also presented information on the requirements for installation of emergency call systems and emergency call devices on vehicles in Russia and the Customs Union, and about dates of entering into force requirements for different category and types of vehicles. General requirements for emergency call systems and emergency call devices were provided. Information about the draft of a new UN Regulation and establishment of a new GRSG IWG was presented. It was mentioned, that the main goal of Russian proposal to develop the UN Regulation is to provide maximum harmonization and overcome the lack of incompatibility between the eCall and ERA-GLONASS systems. Also shown was the current development of the national standards that will be used in case UN Regulation is not adopted.

SIAM presented fuel consumption regulation in India which would be implemented in two stages over a period of 10-years with effect from 1 April, 2016, for passenger cars. The same for the Heavy Duty vehicles, 2 & 3-wheelers will be implemented subsequently.

Development of New Energy Vehicles and ITS

China updated the progress of IEGT (Integration of EVs, Grid and Transportation) self-funded project and briefed the participants of the next steps, including EV operation data collecting and integrated analysis, the international exchange with co-sponsoring economies and the workshop enhancing the experience for integration of EVs, and smart grid and transportation.

Indonesia informed the meeting that Indonesia's government has been working on the program on LCGC (Low Cost and Green Car) and plans to develop LCEP (Low Carbon Emission Program).

Korea presented the technical status of the Green cars and the future direction of electrification by Korean car makers, as well as market situation for NEVs in Korea.

The U.S. presented an update on the ARCAM Dialogue on Electric Vehicles, noting the date of the next ARCAM Dialogue meeting is May 7, 2014, in Qingdao, and seeking the active participation of APEC Economies. The U.S. also presented an outline of the draft recommendations to be proposed at the May meeting.

China introduced their contributions as the co-sponsors the 2014 ARCAM Dialogue. China will actively participate in the dialogue, and there will be three presentations from China for the dialogue workshop on May 7th, to introduce the standardization of the electric vehicles, components and infrastructures.

China has put forward a project concept notes of 'analyzing the effectiveness of policy instrument in promoting new energy vehicles', focusing on a study compiling and comparing policies. Both Chinese Taipei and Malaysia agreed to co-sponsor this project. The revised proposal will be submitted to the CTI this July.

China further reported on the Beijing New Energy Vehicle Demonstration Program. By the end of 2013, there were 6,345 Electrical Vehicles running on the streets in Beijing, including taxis, logistic vehicles, government fleet vehicles and rental cars, etc. The total running mileage is over 40 million km. The driving habits, concerns, and demands of the EV users were collected and analyzed.

Japan provided member economies with the updated "Government Initiative for Promoting Next-Generation Vehicles and Evolution of Intelligent Transport Systems in Japan."

Malaysia briefed the participants on the National Automotive Policy aimed to make Malaysia a production hub for Energy-Efficient Vehicles (EEV) in ASEAN region with high technology uptake among industry players for domestic, regional and international export. The policy will liberalize the industry through EEV and promote key strategic investments in enhancing the competitiveness of the Malaysian automotive industry. The NAP will provide Customized Incentives on top of the normal incentives offered in encouraging both foreign and domestic direct investments. The NAP is also set to enhance the safety aspects of vehicle and parts & components as well as compliance to environmental aspects in a sustainable manner.

SIAM presented National Electric Mobility Mission Plan (NEMMP 2020) of the Gov't of India which envisages putting on the road six to seven million EVs by 2020. Gov't of India will encourage that program, in the initial years, through incentives that should make a valuable addition in India.

Development of Advanced Technologies

China reported the advanced power batteries for xEV application in China, including the progress on lithium ion battery for electric-driven vehicles, lithium ion and nickel battery for hybrid electric vehicles. Both the research target and the industry development status were discussed. China also reported on the Intelligent Automotive Technology in China, including Research and status, technology system and active/passive safety, functionality/performance evaluation, future prospect, and international cooperation on autonomous vehicles.

Korea provided information on the tax incentives for environment-friendly cars, such as HEVs and EVs, and introduced the CO₂ reduction regulations along with fuel efficiency labeling that affects consumers' choice in new car purchase.

Japan made a presentation on advance battery technology and fuel cell battery. Li-ion battery dramatically increased energy density. It has been in progress through material development and faces the trade-off between battery performance/cost and reliability/ durability. Fuel cell system technology is nearing the FCEV market introduction stage, but further cost reductions and hydrogen infrastructure development are necessary.

The U.S. industry presented on moving towards electrification commercialization outlining both global and China's electrification strategy. The U.S. proposed that the path to vehicle electrification is collaboration. For the automotive sector, this includes: developing full range of electrified vehicles that provide customer choice, developing and deploying latest technologies in vehicles, facilitating customers in EV real-world uses, exploring alternative business models and urban mobility solutions. For the infrastructure sector, this includes: facilitating easily accessible public/residential charging installation/upgrading, development of a smart grid. For the government, this includes offering various incentives or tax credits for EV purchase and charging infrastructure, and developing infrastructure/vehicle standards consistent with applicable global standards.

The U.S. industry also presented on the subject of Vehicle Lightweighting Enabled by Light Metals – Technology Innovation and Challenges. The drivers and solutions for lightweighting, implementation cases, such as innovations in materials and manufacturing technologies, citing the challenges, using Magnesium as an example. was discussed. Advanced materials play a key role to achieve vehicle lightweighting, and there are many technical challenges in material development, product design, manufacturing process and performance evaluation. For magnesium use, challenges include the concentration of sourcing (China supplies 80% of the world's production), and price volatility. A systemic approach is needed to find the best solution for mass reduction, balancing cost and performance.

Sustainable Development of Asia-Pacific Regional Auto Industry

China put forward for AD endorsement the updated proposal "Asia-Pacific Region Automotive Industry Sustainable Development Declaration", which had been distributed for comments in advance of the AD meeting. China reported on the necessary background and proposed that the auto industry's sustainable development be one of the AD's key long-term objectives, and proposed six specific measures. This proposal was endorsed by the AD members and it was agreed that it will be submitted to the CTI in May 2014.

The Philippines presented for AD consideration the proposed SME Partner Matching Program, Pilot Phase. The proposal was restructured to open participation in the program to five SME's from the developing APEC economies. The AD recognized the importance of Auto Parts

Manufacturing SME's to the growth and development of both their host economy and APEC's Auto Industry. The AD endorsed the project for submission to the CTI for their consideration.

The U.S. industry presented on the Opportunities and Challenges faced by Industries in the Asia-Pacific. Reminding the AD members that APEC is united in the "...drive to build a dynamic and harmonious Asia Pacific Community by championing free and open trade and investment...", a central APEC AD task as automotive industry leaders and regulators is to work together to facilitate automotive industry growth & trade in the Asia Pacific region. Regional trade and economic partnership agreements have grown considerably in the Asia Pacific region, but there are growing complications, including too many over-lapping agreements, inconsistent coverage, widely varying tariff, non-tariff, technical, currency and taxation influence, inconsistent rules of origin - sometimes for trade in the same product between the same two countries, and lack of automotive industry policy alignment. There are some challenges particularly in the area of bilateral and multi-lateral agreements with too many sub-quality agreements in place. TPP provides a possible platform where the member economies can further pursue the APEC vision of championing free and open trade.

The U.S. industry also acknowledged significant progress that has been made in the APEC region on opening up trade and investment, and that progress has created opportunity. But the progress made and opportunities created are under threat. For example, there is often a high domestic tax applied to all vehicles, but a significant discount on the excise if you meet certain conditions associated with production in the country. This is often related to local content or key components. These measures work just as effectively as a tariff when it comes to developing business cases. The result is the economy ends up with less competition and consumers have less variety. It was proposed that the APEC AD consider developing general principles for Domestic Automotive Excise policies, starting with the following four generic principles: Economies have the sovereign right to set taxation; Move to standardize and/or Harmonize aspects of excise regime to reduce complexity across APEC; Embrace Transparency in effective excise rates, classifications, and rate discounts; and, There be no differential between the application of excise on domestic produced vehicles and imported vehicles. These are the policy solutions by which economies can still retain and grow their Auto industry, and that do not have as detrimental impact on the consumer and the market as discounted excise regimes.

The special guest of the AD-20 Organizers, Dr. Anup Bandivadekar, Program Director from the non-profit research institute International Council on Clean Transportation (ICCT), stressed the importance of enhanced cooperation between APEC member economies on the issue of fuel quality, as well as vehicle emission and efficiency standards. His presentation highlighted the rapid technological change occurring in major vehicle markets due to fuel efficiency standards, and the potential for continued efficiency improvements in the next several decades. Finally, Dr.

Bandivadekar's presentation described the current status of fiscal incentives to promote electric drive vehicles in many markets of the world.

4. AD Streamlining and Improvement

The AD Chair briefed the participants on the CTI paper 'The recommendations on improving the efficiency and effectiveness of the CTI sub-fora'. The document was initially circulated by the CTI Chair. All the recommendations were discussed and found reasonable although not all of these applicable to the AD work. Part of the AD members suggested that current AD arrangements work well and only require improved discipline and advance guidance by the hosts and the APEC Secretariat.

The AD Chair proposed the Recommendations for the updating of the AD mechanism in order to further improve the effectiveness and efficiency, including the AD organization and operation mode, advance formulation of the meeting agenda, meeting frequency, and establishment of the AD Terms of Reference. It was agreed to develop the AD ToR intersessionally and include the approval of the AD ToR in the next AD meeting agenda.

The AD members welcomed the APEC Secretariat's efforts in establishing the Remote Participation system as a tool to expand the participation, but some views were expressed on the potential disadvantages of the online meetings against the real-life discussions of the sensitive issues.

Indonesia requested AD to focus more on SME specifically on auto parts and components industry and to put more topics regarding this issue to be discussed in the AD agenda. Indonesia hopes that auto parts and components industry will grow with the development of auto industry.

5. Preparations for AD-21

China introduced the draft plan of the AD-21, which will be held from September 17-19, 2014, in Shanghai, China. The host proposed to hold the second AD workshop titled 'Experience for Integration of EVs, Electric Grid and Transportation' on September 18. It will support the exchange of views and understanding of new energy vehicle practical utilization within APEC region. China welcomes suggestions and comments on the proposed topic. The first draft agenda of the AD-21 will be circulated in July and the final draft agenda should be available in mid-August along with the Administrative Circular. The AD members are encouraged to provide their feedback and presentation proposals in timely and active manner.

6. Actions and Decisions Summary

The 20th meeting of the Auto Dialogue was recognized by the delegates as a productive and effective one, with the following organizational outcomes to be noted and development directions to be further expanded:

- The AD members agreed to approve the “Asia-Pacific Region Automotive Industry Sustainable Development Declaration” and submit it to the CTI for the Committee’s consideration
- The host economy requested for the APEC Secretariat’s assistance in bringing the representatives of the other APEC fora (SMEWG, EWG, CTTF, SCCP etc.) to the future AD meetings to boost the involvement in the APEC cross-fora interaction
- The members agreed to work intersessionally on the ToR of the AD in order to complete the work and endorse the document during AD-21
- The AD endorsed the two Concept Notes for submission in Session 2 in 2014
- The members expressed their appreciation of the high level of organization and hospitality offered by the Chinese hosts of the AD-20. The practice of hosting the AD meetings back-to-back with the important industry events (exhibitions and conferences) adds decent value to the AD as a tool of industry development and is preferred by the delegates over hosting the AD meetings on the margins of the SOMs.