

Report of the 22nd APEC Automotive Dialogue Manila, Philippines, April 21-24, 2015

The 22nd meeting of the APEC Automotive Dialogue (AD) was held in Manila, Philippines, on April 21-24, 2015. The meeting was attended by government and industry representatives from China, Indonesia, Japan, Korea, Malaysia, Peru, the Philippines, the Russian Federation, Chinese Taipei, Thailand, the United States of America and Viet Nam; the Society of Indian Automobile Manufacturers (SIAM) participated in the meeting as a guest.

AD-22 meeting papers can be viewed at <http://mddb.apec.org/>.

1. Welcome & Opening Remarks

The 22nd Automotive Dialogue meeting opened with the keynote address by Ceferino S. Rodolfo, Assistant Secretary, the Department of Trade and Industry (DTI). The priorities of the Philippines' for the APEC 2015 hosting year were presented by the SOM Vice Chair Ferdinand Cui Jr., Undersecretary, Presidential Management Staff Office. The meeting was chaired by Ms. Corazon H. Halili-Dichosa (DTI) and attended by the CTI representative.

2. APEC Update and Project Development Report

The APEC Secretariat Program Director briefed the participants on the Project activities of the APEC in 2014, project-related issues and changes made in the Project Guidebook in early 2015. The participants noted the importance of the project activities and proposed to continue active work on the projects with several new concept notes to be considered in Session 2, 2015.

China informed the AD of its proposal to establish a "Talent Communication Mechanism of Automotive Industry within the Asia-Pacific Region", as one of the key measurements to promote the APEC auto industry's sustainable development. Personnel exchange within this region could enhance cooperation, mutual understanding and increase talent and investment exchanges. To promote this project, China would take the lead by organizing the first exchange meeting that would include special training, exchanges and factory visits. It is suggested this project could receive financial support from CTI and could become a long-term mechanism, if approved by the BMC. The concept notes were finished and sent to the program director after AD-21, but the proposal still needs comments and feedback from all other economies.

China updated the AD members on the progress of the '*Business Model Research and Best Practice Sharing on the Promotion and Commercialization of New Energy Buses*' project, which had been endorsed during the AD-21 with the co-sponsorship of Chinese Taipei and the United States. A joint working group had been set up and initialized an implementation strategy and operation procedure with an estimated work plan. This plan narrowed down the research focus to Battery Electric Buses, in consideration of industrial reality and significance, and determined a structural analyzing and comparison model. The concept note was finished and sent to program director after AD-21, the proposal requires ranking and prioritization.

China updated the progress of the APEC project "The Impact of Government Policy Instruments on Promoting NEVs", which was approved by BMC in 2014. Since 21st AD, China provided detailed research plan, finished a Request for Proposal (RFP) and submitted it to the Secretariat. An open bidding for high quality proposals will be launched after publishing the approved RFP, and then the project will be implemented in line with the project guidelines and milestones.

3. Subjects & Activities

The APEC AD Workshop: Linking Automotive Parts Supplier SMEs to the Global Value Chains (GVCs)

The Workshop was intended to gather insights from participants on how the AD can start an actionable agenda on fostering and increasing participation of SMEs in the automotive GVCs. The presentations on

the experiences in integrating SMEs into the GVCs were made by speakers from both developing and developed economies, which all recognized the strategic value of SMEs in the automotive GVCs.

The discussions also showed that OEMs are committed and getting directly involved in the development of Tier 2 & Tier 3 SME suppliers not only Tier 1 suppliers. Success stories of SMEs show that innovation and technology are helping them find their appropriate role in the global production and supply network. The experiences of developing economies revealed that SMEs face challenges in terms of research, design, testing, raw material availability and limited domestic markets. Ideas and observations raised for consideration include the establishment of technical assistance centers for SMEs, consolidation of raw materials procurement through OEMs, to have competitive volume, and working with governments to review the tariffs for critical raw materials to allow competitive pricing of parts.

The presentations also highlighted the importance of human resource development as an important aspect of supply chain development. The auto industry evolves at a very fast pace and it is important to close the gap between the needs of the auto industry and human resources available. The presentations recognized the importance of cooperation among government, suppliers and vehicle manufacturers in helping SMEs integrate into the GVCs.

The detailed report of the AD Workshop including the presentation documents will be circulated along with the AD-22 Final Report.

Market Access / FTAs / Auto Parts

China reported on the status of China's auto market in 2014. In 2014, the production and sales of automobiles reached 23.72 million and 23.49 million respectively, up 7.3% and 6.9% year over year, the PCs, CVs segments of sales were also introduced. Under a series of government incentives and instruments, the production of NEVs developed fast in 2014, which reached 83,900, increasing 4 times year over year.

Indonesia updated the AD with its new automotive industry policy. The new policy, which introduces an incentive in the form of import duty reduction for CKD and IKD scheme, is designed to attract investment, encourage export and to strengthen industrial structure.

Japan reported on the status of its domestic auto market and the factors contributing to its recovery since 2009. Notable recent trends are the strong sales of next-generation (including hybrid) vehicles and the growing market shares of small and imported cars.

Japan reported on recent developments in its promotion of wide-ranging and comprehensive EPAs/FTAs, including the implementation of a Japan-Australia FTA in January 2015 and the agreement on a Japan-Mongolia FTA reached in February 2015.

Korea explained the current status of existing FTAs and ongoing FTA negotiations, both within the APEC region, including the Korea-China, Korea-Vietnam, Korea-Canada, Korea-Australia FTA, Korea-Colombia FTA, China-Japan-Korea FTA, and provided updates on the harmonization of technical regulations (KMVSS) with global regulations such as UN/ECE and GTR.

Malaysia and the Philippines presented a snapshot of the current automotive industry's sales and production, market access, government taxation policy and market access.

Russian experts informed the AD about the entering into force of the Treaty on the Eurasian Economic Union that started 1st January 2015. Information about the collective benefits to contracting countries was presented along with the current legal base and main benefits of the Eurasian Economic Union. Information on the automotive technical regulations was also provided.

U.S. industry provided an update on the status of current U.S. free trade agreements and ongoing trade agreement negotiations, with an emphasis on the status of the Trans-Pacific Partnership talks. U.S. industry also noted the positive and negative commercial implications of the proliferation of free trade agreements across the region. There are more than 50 bilateral/regional trade agreements in the APEC region leading to increased complexities, but several regional FTAs underway promise to improve integration, minimize the downsides and lead to broader and deeper auto sector coverage. Given CTI's priority to advance APEC-wide economic and trade integration, it was proposed that APEC AD support efforts to adopt robust regional FTAs that would serve as building blocks for APEC-wide economic and trade integration.

Japan presented an outline of Japan's auto parts industries based on data from JAPIA, the Japan Auto Parts Industries Association. Continued expansion of overseas production by Japanese automakers has prompted auto parts industries to increase production bases in member economies.

Regulation and Standards

Economies provided the updates on motor vehicle regulatory harmonization, including the adoption of the WP.29 and other standards and practices.

Japan reported on the progress of WP.29 activities and that the number of countries, especially outside Europe, acceding to the 1958 and 1998 Agreements has been expanding. Japan also summarized the expected benefits of IWVTA, scheduled for adoption in 2016. It was suggested by Japan that APEC economies advise their authorities to attend WP.29 meetings.

Four government and industry experts representing the United States reported on the half-day workshop held on April 21st on the margins of the 22nd APEC Automotive Dialogue. The workshop highlighted the rigorous U.S. motor vehicle standard and regulatory process, the robust nature of the U.S. requirements, as well as the importance of the UN WP.29 Global Technical Regulation (GTR) development process.

The representative of the U.S. Department of Commerce discussed the United States' private sector led standards development process, including the voluntary, consensus driven process and how it aligns with WTO international standards requirements.

The speaker from the U.S. National Highway Traffic Safety Administration discussed his agency's automotive safety regulatory process, including the detailed, data driven, and transparent nature of the U.S. regulatory development process.

The U.S. Environmental Protection Agency (EPA) representative (retired) discussed the similarly rigorous nature of the EPA's regulatory process, and highlighted the primary differences between the two major UN WP.29 agreements. First, the 1998 Agreement requires cost analysis, while the 1958 Agreement does not. Second, the 1998 Agreement eliminates all administrative and political requirements, preserving the national Independence of each economy to adopt the administrative approach most acceptable to their systems. And, third, the 1998 Agreement's, regulatory effectiveness is maintained through harmonized performance and test requirements, absent the administrative and third-party costs of the 1958 Agreement.

The speaker representing U.S. industry emphasized that while truly global auto standards and regulations are being developed under the 1998 Agreement, economies should accept vehicles certified to both UN ECE and the U.S. FMVSS/EPA standards, given that they deliver comparable safety and environmental performance and outcomes.

China expressed that WP29 is the platform for worldwide regulation coordination and development. China emphasized that APEC economies should be encouraged to focus and participate actively in the activities of WP.29 in order to support the worldwide harmonization of automotive regulation.

Regarding the reports on U.S. efforts in WP.29 activities and the U.S. proposal on accepting both U.S. and EU regulations, Japan remarked that “Japan appreciates and supports U.S. activities concerning the 1998 Agreement. Japan’s position on this issue is that WP.29 should serve as the platform for global harmonization initiatives. Japan also welcomes and supports the APEC economies’ efforts for harmonization based on the 1958 and 1998 Agreements”. First, if an economy accepts both the UN-ECE regulations and FMVSS based on mutual recognition, its regulatory structure will become very complicated; second, that complexity will increase if an economy introduces both government certification under the 1958 Agreement and FMVSS self-certification.

The Philippines commented on the proposed: The decision on which standard to adopt will ultimately be arrived at by the individual economies, taking into consideration the administrative and legal structures that will be needed for the adoption and implementation of the selected standards.

Russian experts reconfirmed that the activity in field of technical regulation harmonization and mutual recognition should base on WP.29 in frame of 1998 Global Agreement and 1958 Agreement.

APEC AD Automotive Tax Policies

Japan reported on its tax structure and recent tax measures focusing on incentives to promote the wider use of eco-friendly vehicles. Tax incentives require compliance (or better) with standards representing average fuel efficiency for their different vehicle weight categories. The AD was informed that upcoming discussions will determine new tax measures to be introduced in Japan in regard to automotive environmental performance.

During AD-21 meeting in Shanghai, economies agreed to regularly update the AD on their motor vehicle taxation systems. This commitment, coupled with guidance from the APEC Secretariat that resources for a motor vehicle tax compilation project would be difficult to acquire in advance of Manila AD-22, U.S. industry took the initiative to collect all the publicly available information on motor vehicle tax systems used by APEC members into one document and developed a proposal for consideration by the AD to ensure accuracy, regular update, and next steps.

U.S. Industry presented on the auto tax document titled "Motor Vehicle Related Taxes in APEC," a 70-page document that places auto taxes for each economy into four categories- purchase, possession, use and border, as well as identifying environmentally friendly tax incentives. The initial takeaways were that: The region has a very wide spectrum of motor vehicle tax policy approaches and overall tax burdens on motor vehicles; Some economies place a higher emphasis on taxes at the border, some on purchase, some on possession, and others on use; and, Some economies favor one vehicle type over another, or a vehicle attribute over another.

U.S. Industry proposed, and the AD approved, the following next steps:

- Economies would review and update the initial draft compendium of motor vehicle taxes in the APEC region for completeness and accuracy by June 23 with the final draft completed by June 30.
- At each AD meeting economies would provide updates on motor vehicle tax policies and incentives.
- For AD-23 a comparison of the different motor vehicle tax structures (Purchase, Possession, Use and Border), including incentives would be undertaken.

U.S. Industry also presented on automotive taxation in the region to promote industry growth, where a regional attempt at coordinating excise taxes against core principles was suggested, including standardizing excise structures, similar as to what ASEAN achieved with tariffs, an agreement on appropriate tax bases and valuation criteria, and an adoption of transparency measures to prevent design of excise taxes as impediments to trade.

The United States gave a presentation on the APEC EV Roadmap. The CTI tasked the Automotive Dialogue to draft the Roadmap, in cooperation with the Energy Working Group and Transportation

Working Group. The aim of this Roadmap is to facilitate the adoption and implementation of international standards pertaining to electric vehicles.

The AD endorsed the template document and asked the economies to fill out the template intersessionally, with inputs sent to the United States before May 20th. The results will be compiled and circulated before AD23.

An important aspect of the EV Roadmap is the interoperability center. The interoperability center analyses electric vehicles and related infrastructure to ensure interoperability. The center is evaluative in orientation seeking to ensure products meet the basic requirements for consumer operation irrespective of product standards in use.

China requested that the scope, task and outcomes of the APEC EV Interoperability and Research Center should be further and more clearly defined. The ISO/IEC related technical committees are promptly developing the interoperability standards, including the connectors, communication protocols, and compliance test. The APEC EV Interoperability and Research Center should not duplicate this work.

Regarding the proposal from the U.S. on an EV roadmap, Japan remarked that “Japan appreciates the report on U.S./EU EV-Smart Grid Interoperability Centers activities, but Japan's position is that standards and regulations for electric vehicles should be based on existing international activities by the UN, ISO, and IEC” and requested confirmation of three points. “First, regarding the interoperability centers, [confirmation is requested] on U.S. thoughts on their functions and form including physical facilities, staffing, and funding. Surely it is first necessary to assess the current EV market situation in regions such as ASEAN and to conduct technological analysis; [the U.S. is asked to] advise us if [it] has specific action plans concerning the establishment of interoperability centers and the resolution of issues. Second, when consideration of this matter is taken up by the AD, [it is hoped] that the aims and final goals will be clarified and a roadmap drawn up. Finally, [the U.S. is requested to] explain what cooperation is taking place within/among U.S. government agencies such as DOE, DOT, and NHTSA to drive consideration of this roadmap.”

In response to Japan's comment, the United States stated that it understood Japan's concerns and will respond later.

The Philippines presented the Work Plan for the GVC-SME Integration for the Automotive Sector (GSAS), a Project that it co-leads with Malaysia. The Project hinges on Korea's APEC capacity-building initiative on Promoting SME's Integration into Global Value Chains in Major Industries. A deliverable of the Work Plan is the accomplishment of a survey that aims to analyze SME integration into the automotive GVCs in the Asia Pacific region. Components of the study include GVC mapping of the automotive industry in APEC, specific characteristics of automotive GVCs, success/failure factors and best practice cases of automotive GVCs.

Malaysia discussed and circulated the survey, which aims to identify the tariff and non-tariff barriers to trade and investment that SMEs face in their integration into automotive GVCs, with a view to develop practical solutions to address such barriers. The GSAS survey results presentation is scheduled for the 23rd AD.

5. Preparations for AD-23

The Philippines has invited AD members to the AD-23, tentatively scheduled on September 1-4 in Cebu City on the margins of the SOM-3 meeting.

6. Actions and Decisions Summary

The 22nd 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 members expressed their appreciation of the high level of organization and hospitality offered by the Philippines hosts of the AD-22. The APEC workshops series initiated by Indonesia in 2013 have proved to be a good practice for information exchange and coordination of the efforts.
- The inputs to the EV Roadmap are expected by May 20, aiming at presenting the draft summary at the AD23
- The GSAS survey (circulated by Malaysia) is to be submitted by the members by June 30.
- The inputs by economies to the taxation research (led by the U.S.) are expected by June 23.
- Two Concept notes by China will be circulated intersessionally aiming at submission in Session 2, 2015.
- The AD tasked the APEC Secretariat PD to prepare the AD Workplan for the 2015 and keep the AD members updated of the oncoming activities and deadlines.
- The AD agreed to start the pilot stage of the new ACS system implementation aiming at full-scale deployment by the time of AD-23.
- The AD has adopted the Philippine proposal on developing a compendium of automotive industry information in APEC economies, aimed at empowering APEC SMEs to penetrate the automotive GVCs, through updated trends and knowledge on the automotive markets in the APEC region. This proposal will build on the compilation done by the United States on APEC-wide taxation regimes. The compendium shall be available with base information by AD2 using the last two years' AD meeting data.