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CLEPA Position Paper

EU-MERCOSUR Free Trade Agreement

In light of the renewed political revival in the EU-MERCOSUR FTA negotiations, CLEPA underlines its continued support for the negotiations as they would bring important benefits to both economies, in the form of an ambitious and comprehensive trade deal. CLEPA hopes that the changes in the political landscape will favour stronger commitment to pave the way for a successful conclusion of the negotiations.

Under HS tariff code 8707 (automotive parts and accessories), the trading volumes during 2016 between the EU and Brazil was 1.8bn USD and between the EU and Argentina it was 848 million USD.

The objective of the negotiations between the European Union and MERCOSUR centres on cutting customs duties, removing barriers to trade in services and improving the rules relating to public tenders, customs procedures, technical barriers to trade, as well as protection of intellectual property rights.

CLEPA agrees that a Free Trade Agreement is the best way to achieve meaningful market openings and improve the overall trade and investment conditions for its members in the MERCOSUR region.

In line with CLEPA's general principles on FTAs,

CLEPA supports:

- **Full tariff liberalisation;**
The **elimination of all customs duties and quotas** symmetrically (at the same time and under the same conditions) and within short transitional periods (2-5 years), reciprocally;
- **Addition of an automotive specific Annex (for vehicles and parts)**, eliminating all Non-Tariff Barriers.
- CLEPA is a strong supporter of the UNECE process, as the main focus for international harmonisation of technical regulations (and of ISO for international standards). CLEPA supports the abolition of all NTBs and welcomes the active, focused and political support of the European Commission to convince MERCOSUR members to join the Geneva WP.29 Forum, to become Contracting Parties to the UN 1958 Agreement and to sign and apply at least all the UN Regulations, annexed to the 1958 Agreement which the EU has signed and is applying. In the case where a country has not signed, it should at least recognise and accept the EU and UNECE approvals and markings for EU automotive goods, thereby accepting the corresponding UN and EC type-approved products, without

any additional requirements (e.g. further testing, marking or administrative procedures) which would cover the acceptance of new technologies.

- It is noted that Brazil has for a long time established its own national legislation, laying down mandatory certification, compliance approval processes and marking requirements, including conformity assessment procedures for automotive parts, despite the Brazilian technical requirements being highly compatible to the corresponding UN Regulations. One such example for Brazilian national regulations which duplicate existing international standards is the certification by INMETRO (Instituto Nacional de Metrologia, Qualidade e Tecnologia) for importers of car parts.

Worldwide harmonisation reduces costs for a globally operating industry. To this end, an EU FTA agreement with MERCOSUR should seek specific legal language on the acceptance of UNECE regulations to provide legal certainty. CLEPA will support Commission projects to this end.

- **Compliance with the relevant, specific WTO Agreements on Technical Barriers to Trade (TBTs)**

- **Removal of import taxes**

Currently, 85% of EU exports to MERCOSUR are subject to import duties and taxes. CLEPA requests the complete removal of these import duties and taxes as they represent an unfair and discriminatory barrier to trade, e.g. federal state taxes can effectively double the cost of importation. Taxation schemes such as INOVAR AUTO clearly discriminate against imported automotive products from abroad into Brazil, where the applied import tariff rate is in the region of 30-40%. In addition, an internal IPI tax is payable of 30-40%, where parts are not sourced locally. Tax credits are reduced directly in line with the quantity of imported parts. Throughout MERCOSUR, there are high levels of a minimum local content percentage to be achieved: Brazil = 60%; Argentina = 60%; Paraguay = 50%; Uruguay = 55%; Venezuela = 60%.

- **Duty Drawback**

CLEPA is in favour of reciprocal duty drawback.

- **Rules of Origin**

CLEPA supports 50% of non-originating material (generally), and no more than 30% on non-originating products (for electronics), given the great volumes of electronic products coming from Asia. CLEPA is supportive of a Change of Tariff Heading, compared to the NAFTA rules.

CLEPA's supports cumulation of origin with other countries which have already signed a FTA with the EU.

FTA negotiations should strive for worldwide harmonised and easy to handle rules of origin for all FTAs. The FTA should avoid providing only simultaneous structures for determining preferential origin, such as "a change of tariff heading" "added value rule". The added value rule should be the primary rule. In case there is only a change of tariff heading rule or only a change of tariff heading rule in combination with an added value rule, there should always be an alternative based on an added value rule. Other variations of the rules of origin in FTAs should be avoided. Thus, a mechanism to adapt the structure of rules of origin to a changing business environment should be foreseen in the FTAs.

- **Customs and trade facilitation**

CLEPA supports the streamlining of customs rules, controls and procedures in order to facilitate goods through customs and furthermore CLEPA supports the harmonisation of general rules for interpretation of the HS and General Complementary Rules of NCM.

CLEPA supports the effective tackling of any type of "protectionist measure", e.g. unnecessary import licensing regime; requests for advance import affidavits causing delays and blockage of goods. CLEPA supports harmonisation of the calculation of customs value. (Brazil has 5 methods of calculating import value, EU has 5 methods).

- Inclusion, recognition and acceptance of **remanufactured goods***, to ensure the free trade of cores and remanufactured parts across borders.

** A **remanufactured part** fulfils at least the same function as an 'original part'. It is restored from an existing part, i.e. from the core, using standardized industrial processes, in line with specific technical specifications*

A remanufactured part is given the same warranty as a New Part.

This is a common definition of APRA, CLEPA, FIRM, VDA and ACEA. A remanufactured part is different from a reused, repaired, rebuilt, refurbished, reworked or reconditioned part.

- Mechanism to properly protect **Intellectual Property Rights**, establishing a good legal framework.
- Improving the **rules related to public tenders, customs procedures, as well as protection of intellectual property rights.**

CLEPA supports the inclusion of Venezuela and Bolivia (the latter being an Observer) as parties to the EU-MERCOSUR Agreement negotiations.

CLEPA is the European Association of Automotive Suppliers. 120 of the world's most prominent suppliers for car parts, systems and modules and 23 National trade associations and European sector associations are members of CLEPA, representing more than 3 thousand companies, employing more than 5 million people and covering all products and services within the automotive supply chain. Based in Brussels, Belgium, CLEPA is recognised as the natural discussion partner by the European Institutions, United Nations and fellow associations (ACEA, JAMA, MEMA, etc.).

Facts about the European automotive industry

- Some **12 million** people are employed in the European automotive industry
- European automotive suppliers directly employ **5 million** people
- European automotive suppliers invest **€22bn** in RDI per year. They are the biggest private investor into research and innovation
- Per year, **18 million** vehicles are manufactured in Europe, contributing to the stability and growth of the European economy

