

# TTIP

## Aligning Regulations: Evidence from Autos

Caroline Freund  
Senior Fellow

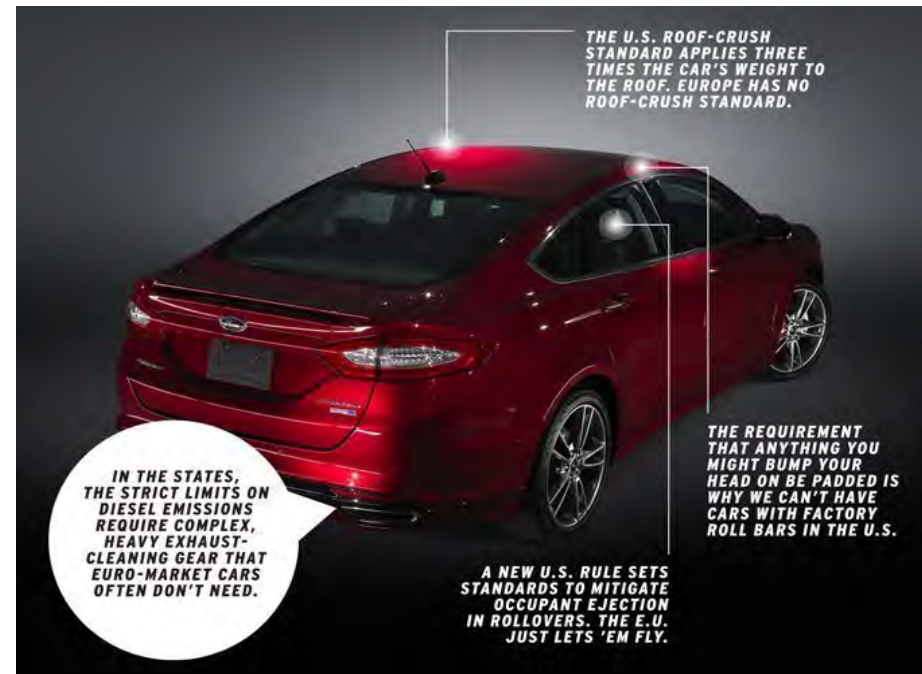
Peterson Institute for International Economics

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# What do the EU and US say?

- EU objective: “Greater regulatory compatibility between the EU and the US, and paving the way for setting global standards” European Commission.
- US objective: “T-TIP can set high standards and pioneer new rules for the global trading system” USTR.
- Agreement is about **market integration** and **first-mover advantage**.
- 80% of estimated gains come from adjustment in NTBs.

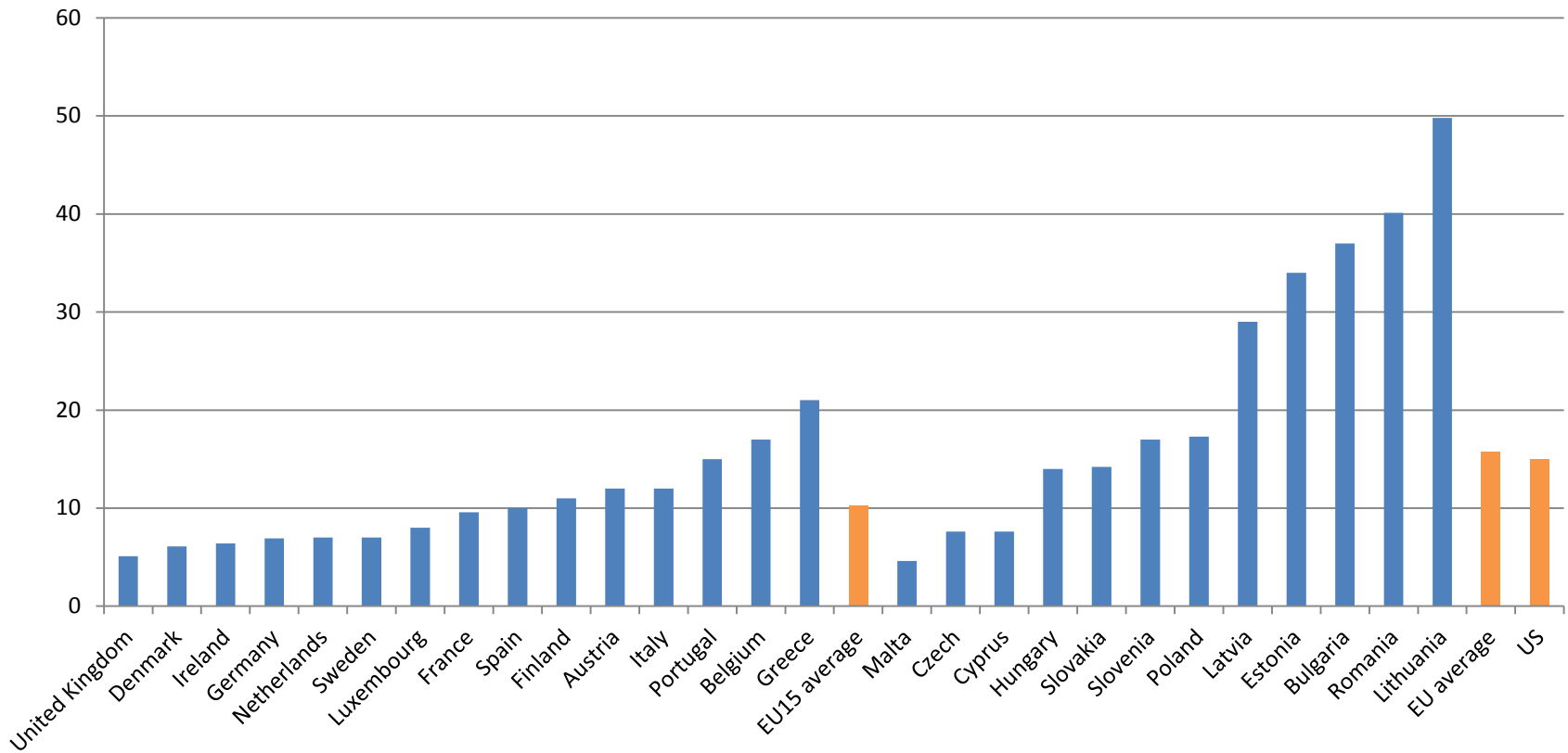
# Regulations



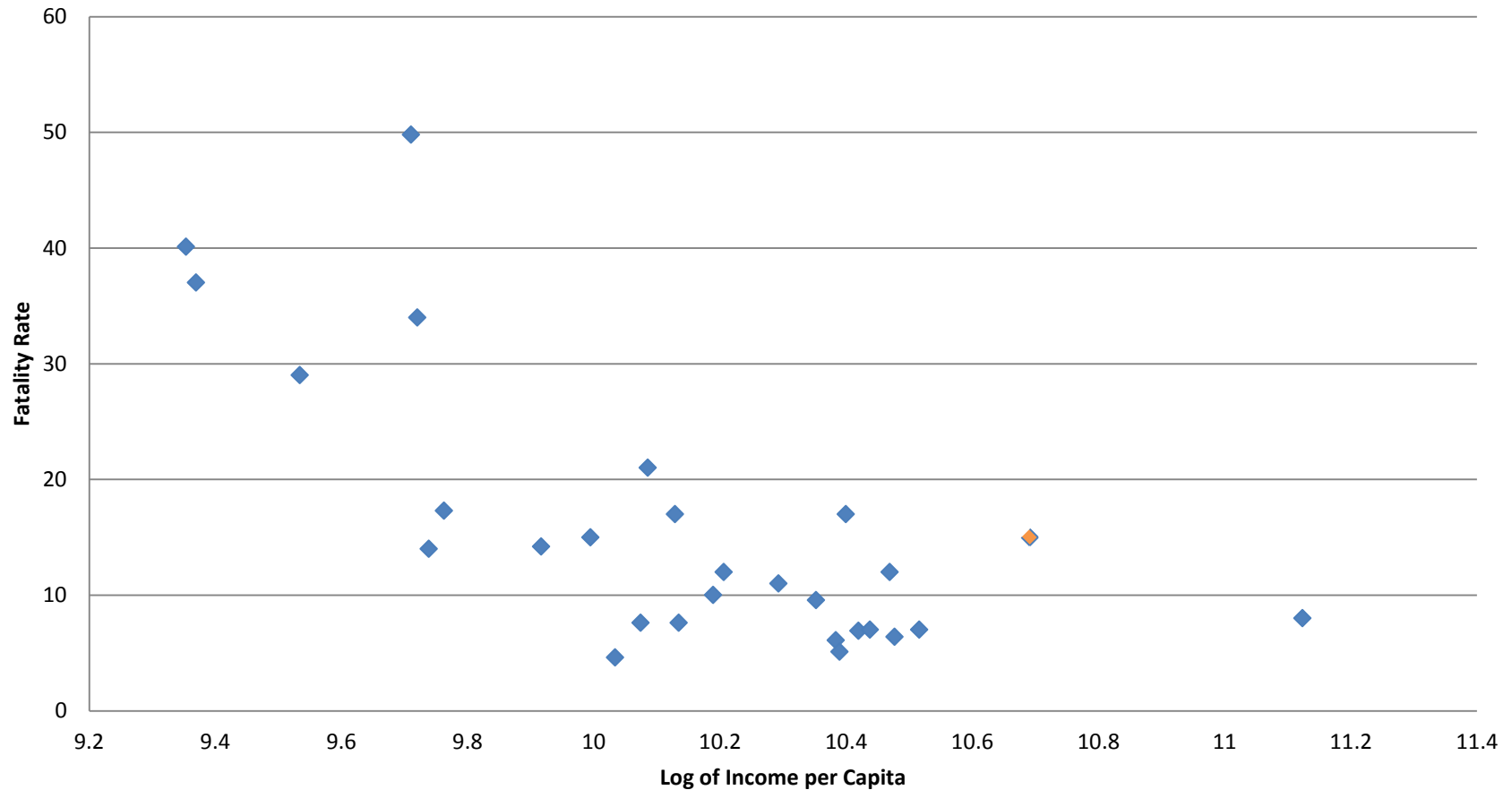
The Ford Fusion's global parts commonality is 80 percent.  
Estimates suggest regulations equivalent to 25% tariff (2<sup>nd</sup> Highest after food).

# Which Standard is Better?

Fatalities per 100,000 motor vehicles

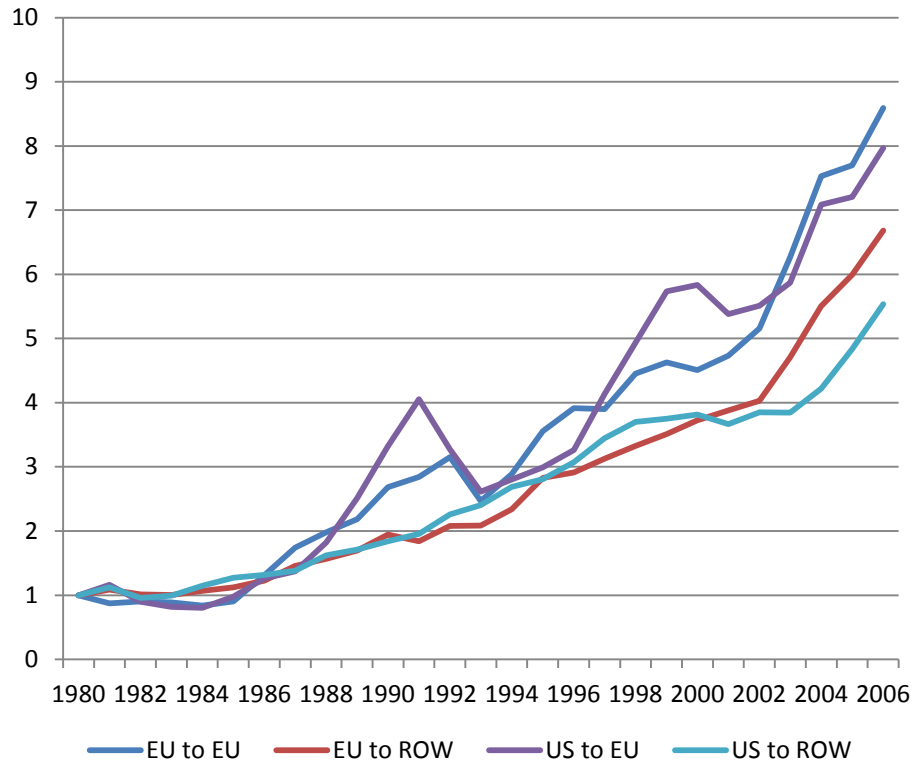


# Fatalities Vary with Development

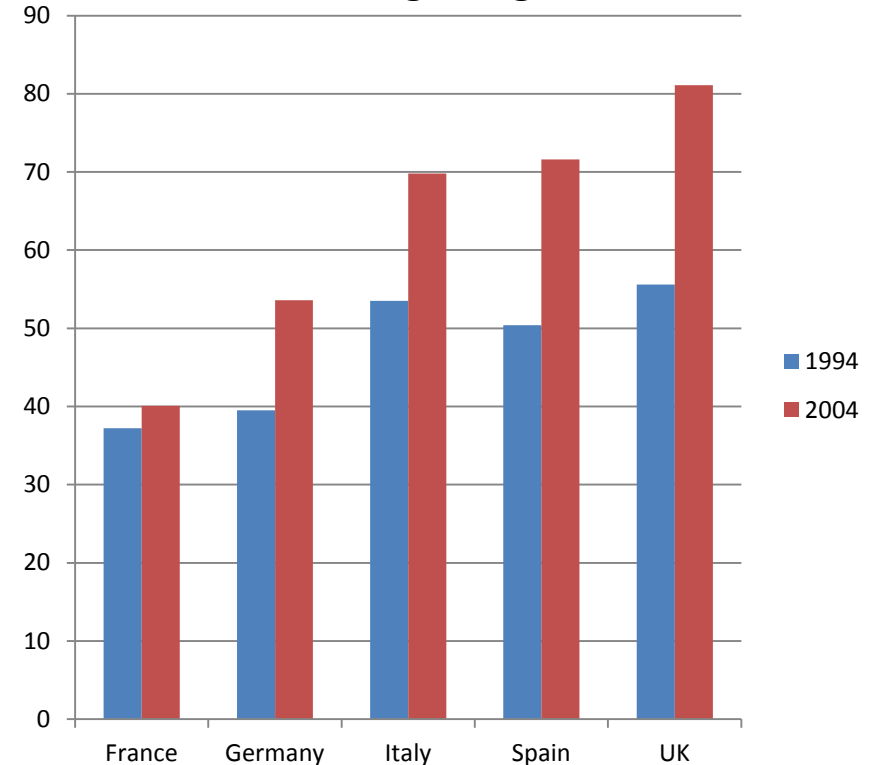


# EU Single Market and Auto Trade

Auto Trade Index



Share of Foreign Registrations



Source: WITS and Hyun 2010.

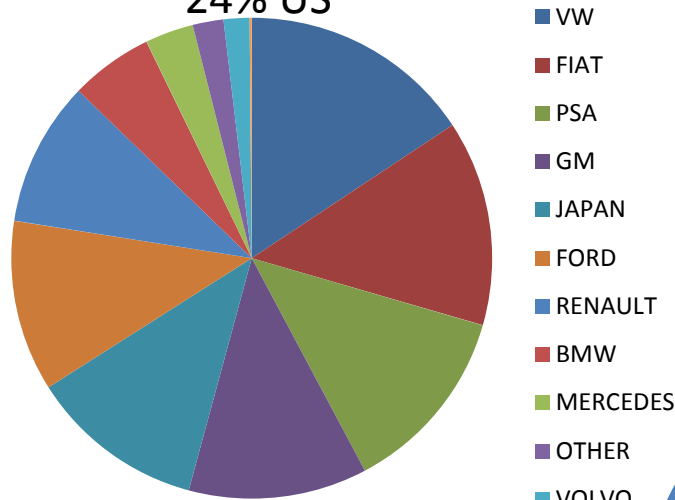
# Adjustment across brands

## Western European Registrations

1990

35% non-European

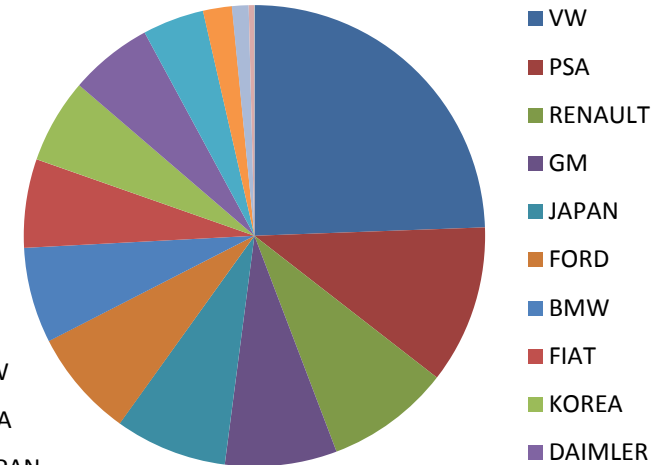
24% US



2013

26% non-European

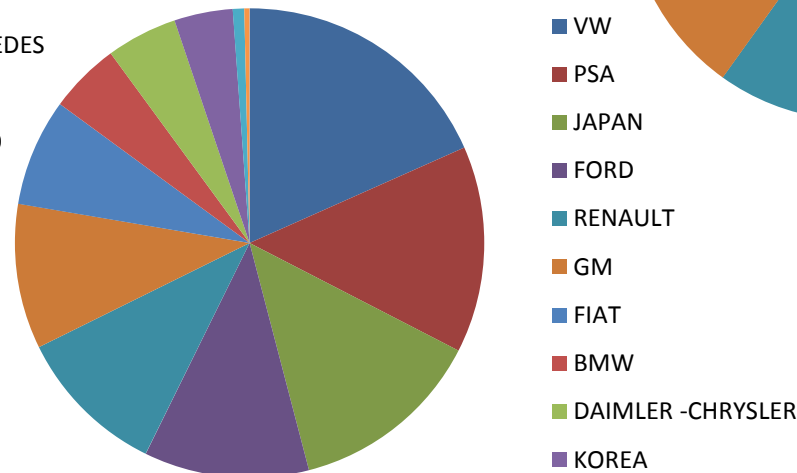
15% US



2004

38% non-European

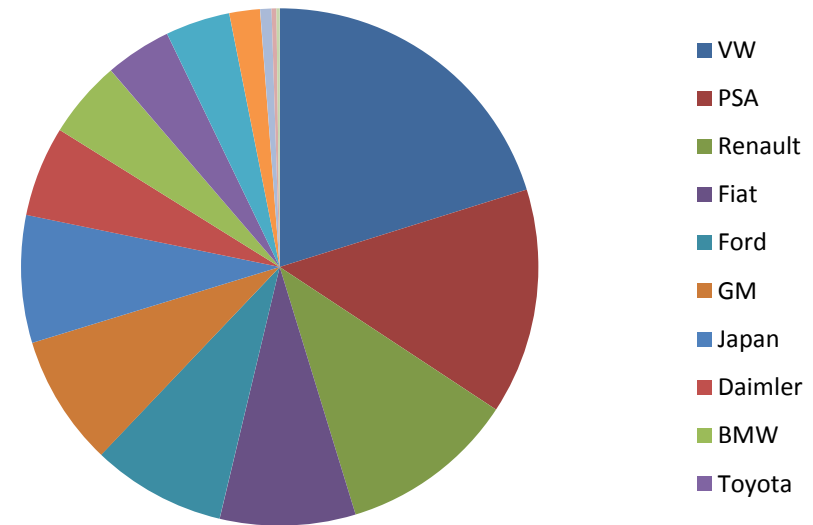
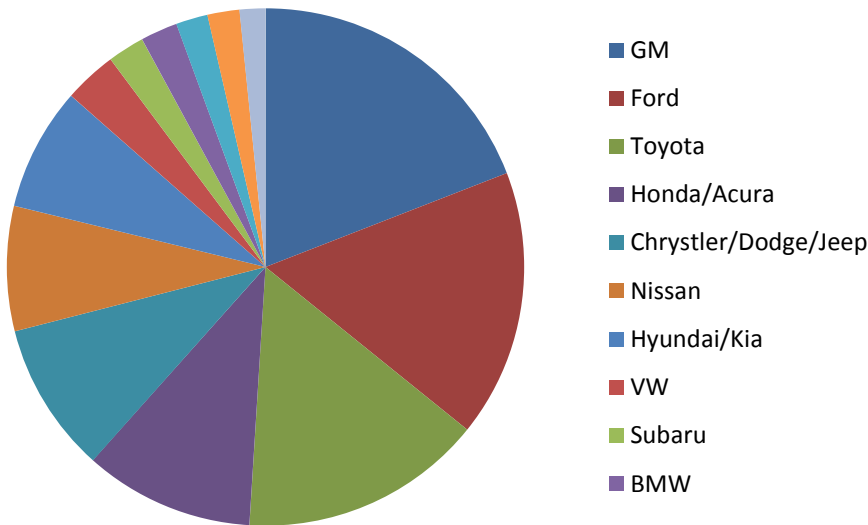
21% US



# EU versus US (2010)

US, 53% foreign, 8% EU brands

EU, of which 32% Foreign, 17% US brands





# Economic Implications

- Regulatory barriers pose sunk costs and variable costs—deadweight loss.
- Gains in autos:
  - More models, achieving scale economies on any one model is easier
  - Efficiency gains and lower prices on previously untraded models
  - Reduces ability of firms to price to market
  - More competition--smaller producers can more easily reach returns on global models; large producers can reach returns on non-core models.

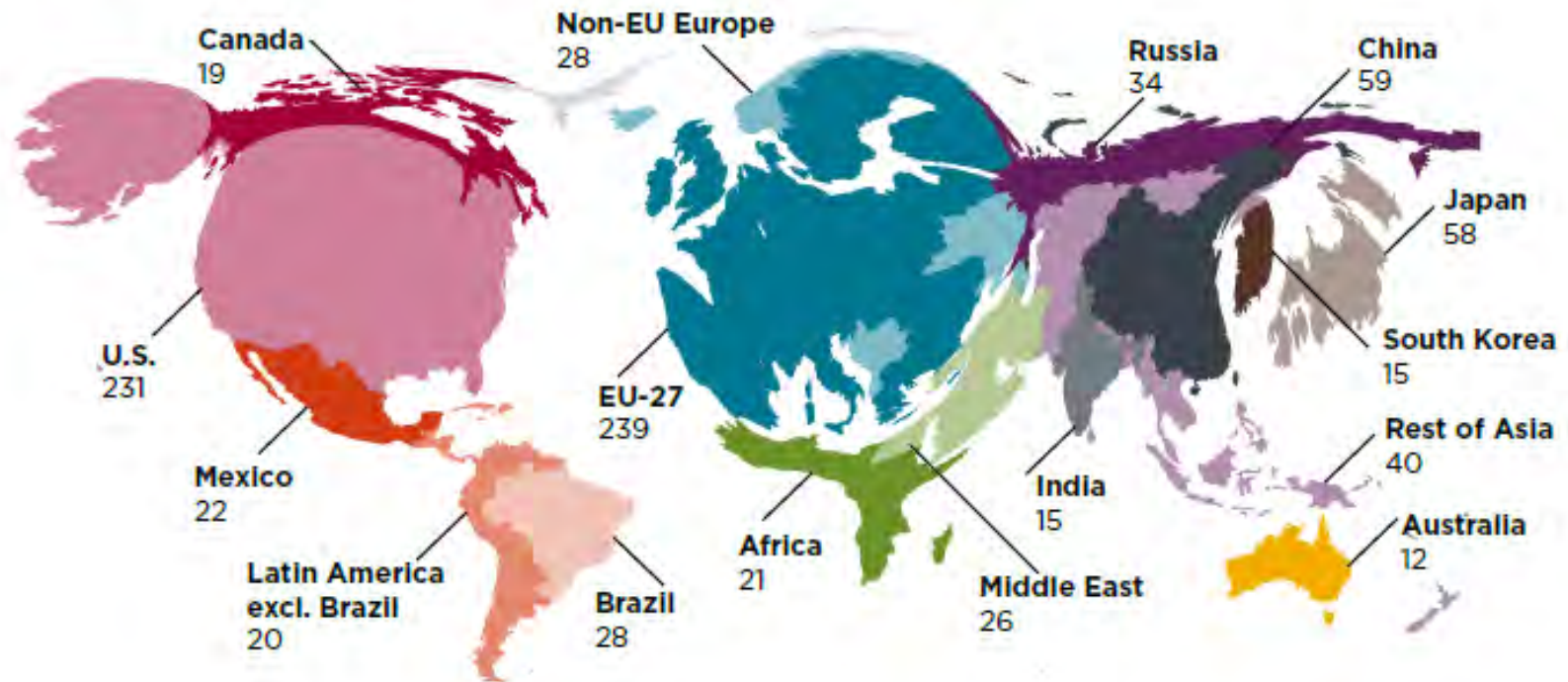
# Why Now?

- EU and US together are 38 percent of global exports 47 percent of global imports.
- They are 59 percent of global auto exports and 55 percent of global auto imports.
- Setting standards first gives others incentives to follow.

# US and EU are Primary Markets

2010

Light-duty vehicle stock (in million vehicles)

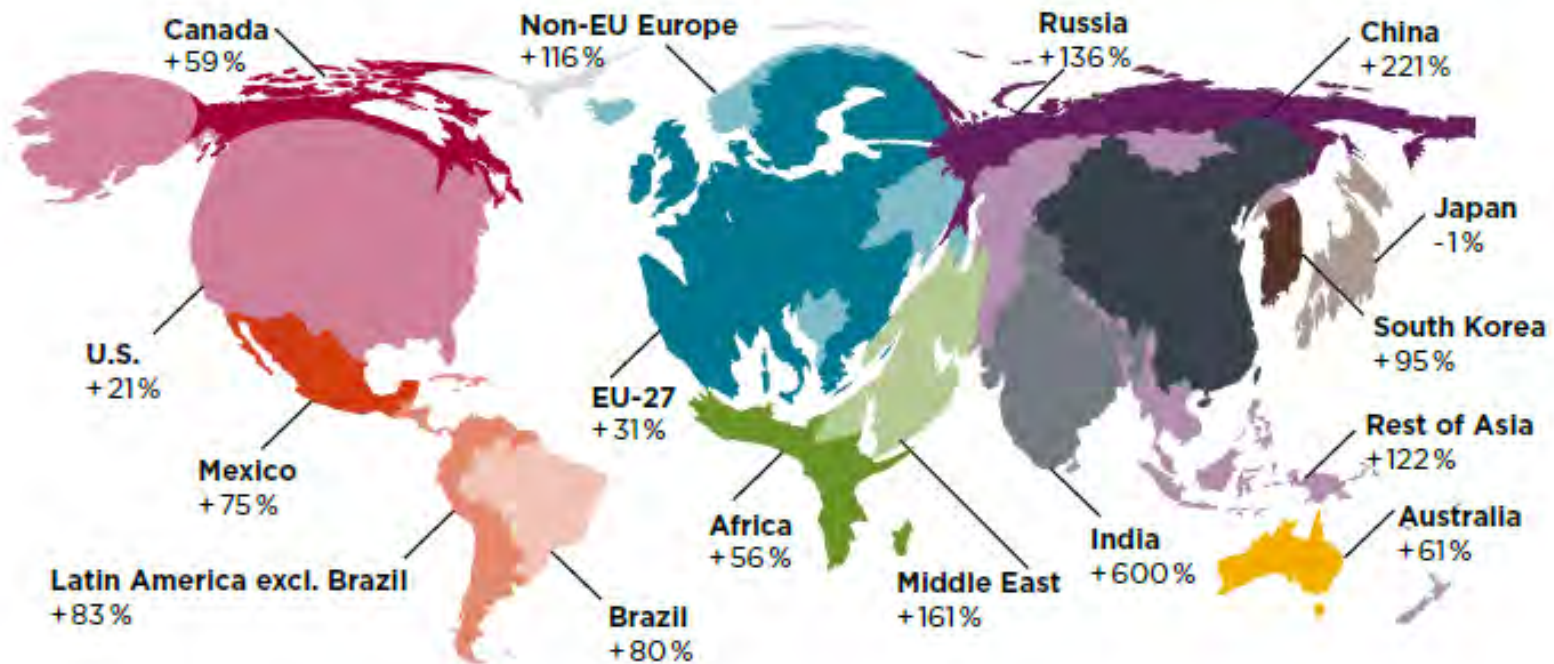


Source: European Vehicle Market Statistics 2013.

# Market Growth outside US and EU

**2030**

Light-duty vehicle stock (+/- variation 2010 and 2030)



Source: European Vehicle Market Statistics 2013.

# Conclusions

- TTIP is about regulatory convergence and first mover advantage
- Gains are productivity, prices and variety, little diversion and no tariff revenue loss
- US-EU manufacturing resurgence
  - Location of production based on demand not regulations
- Timing is important: Gains magnified if rest of the world follows

# Future Research

- Understanding efficacy of US and EU standards.
  - Accidents and fatalities across EU countries and US states, over time, varying regulations (car standards), controlling for income, road quality, rules (eg. speed limits, alcohol laws, and seat belts), and demographics etc.
- Economic effects of regulatory harmonization at the product level.
  - EU trade: How did trade in products that were harmonized change compared to other products?
  - Volume of trade
  - Distribution of trade across firms--rationalization
  - Number of varieties
  - Prices and price dispersion