SMMT
DRIVING THE
MOTOR INDUSTRY

14 February 2014

Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
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Dear Chancellor,

Budget 2014 – UK automotive sector priorities

The priority for the UK automotive industry is to deliver the vision and commitments of the Automotive Sector Strategy - *Driving success – a strategy for growth and sustainability in the UK automotive sector*. The industry is totally committed to the strategy; to build on the success of the past few years in cementing the UK automotive industry's role as a significant driver of economic growth. To achieve this, we need continued cross-government support to ensure a competitive business environment in which the whole industry can prosper. Budget 2014 is government's opportunity to translate some of the commitments and aspirations of the Sector Strategy into action.

The UK automotive industry enters 2014 with considerable momentum. The market for new cars was up almost 11% in 2013, returning to pre-recession levels. UK car manufacturing grew by 3% and, with over £2.5bn of investment announced last year, the UK is on track to exceed its all-time record for car manufacturing by 2017.

However, there are still many challenges. Whilst commercial vehicles registrations were up, production was down and bus and coach registrations were also down in 2013. With a weak European market, manufacturers are looking further afield for growth opportunities and supply-chain companies, particularly SMEs, continue to face challenges in maximising growth opportunities. The proposed US-EU Transatlantic Trade and Investment Partnership therefore offers an historic opportunity to increase trade, reduce regulatory cost and provide future regulatory leadership to establish global technical harmonisation.

Given the fragility of the EU market, however, it is important that policy-makers do not disrupt the market. SMMT and its members therefore look to Budget 2014 to give businesses confidence and certainty and to demonstrate cross-governmental support and policy alignment for the Sector Strategy's four focus areas: supply-chain, innovation, skills and business environment.

SMMT has therefore identified industry priorities in the following areas and looks to government to support their delivery:

- **A competitive business environment**
- **Skills to support growth**
- **Supporting supply-chain opportunities**
- **Globally competitive and leading in technology and innovation**
- **Developing the ultra-low carbon market**
- **Engaging with industry on the future of motoring taxation**
- **Modernisation of UK motoring services/DfT agencies**

A competitive business environment – The Automotive Council's Business Environment and Skills Working Group (BES) has now been formally established and is developing priority areas for its workstreams. Some progress has already been made, most notably in local engagement through a LEP leadership forum. Consideration of the impact that all initiatives and policies have on the UK's competitiveness must be a priority and understood across government and at all levels. SMMT calls on HM Treasury and other key departments to engage in the BES workstream to deliver the measures necessary to ensure we have a competitive business environment in the UK.

The Sector Strategy acknowledges the importance of the European market and the EU as a regulatory and policy influence on the sector. We have commissioned KPMG to develop an evidence-based report which will enable SMMT to set out the value of the EU to the UK automotive sector and help us participate in the ongoing debate. We will ensure Treasury ministers and officials are briefed on its findings.

What is already clear, however, is that there is a need to make the EU more competitive if growth is going to be stimulated and the EU compete globally. Global trade, as an EU competence, is vitally important therefore and the automotive sector will continue to provide input into trade negotiations. SMMT strongly supports UK efforts on the historic opportunity offered by negotiations of a US-EU Transatlantic Trade and Investment Partnership to increase trade, reduce regulatory cost and provide future regulatory leadership promoting global technical harmonisation. There is a common need across many putative FTAs to abolish non-tariff barriers (NTBs) but we must also ensure that the impacts on industry are understood when pursuing an ambitious free trade agenda.

In our Autumn Statement submission we raised long-standing concerns over the impact of high energy costs and uncertainties over future energy supply on UK automotive competitiveness. This affects supply-chain companies, as much as OEMs. High energy costs, and the administrative burden of energy regimes in the UK, could deter future investment in the UK automotive industry. SMMT would call for a freeze on Climate Change Levy (CCL) and Carbon Reduction Commitment (CRC) rates, for the CCL relief on gas to be raised from 65% to 75% for being in a Climate Change Agreement (CCA) and support the removal of the carbon price floor.

The complexity of the energy efficiency regimes in the UK have also been an on-going concern for the automotive sector – and SMMT reiterates its calls for simplification of regulations and reporting and, in particular, restoration of the general CCA exemption rule in the CRC. As a recent example of the complexities, whilst we welcomed the exemption of certain mineralogical and metallurgical processes from the CCL (and therefore CCA), we still require these processes to count towards CCA eligibility (as EU Emission Trading Scheme emissions do). Changing the eligibility thresholds could cause significant cost and administrative burdens to our sector. Further to this, the impact of these exemptions on the scheme for all sectors involved has yet to be considered. SMMT calls for a cautious and consultative to ensure sectors which would remain in the CCA would not be unduly affected or see radical change.

The Autumn Statement announced a 2% cap in business rates increases for 2014-15 which is welcome. However, the automotive sector has engaged with government on business rates for a number of years and still retains specific concerns over the valuation approach for large automotive sites. General Motors and Tata Steel have convened a cross-manufacturing group of employers to establish common concerns which are wider than automotive. We understand that major concerns on the competitiveness impact of business rates remain, especially for companies seeking to attract investment and compare cost bases with other global sites. We hope government and relevant agencies will engage, support and take timely action on this issue.

Skills to support growth – Supply chain and wider industry competitiveness is dependent on having a flexible workforce with the skills that companies demand. There is an urgent need for more skills in the industry, and the Sector Strategy includes a consensus skills roadmap covering the key

SMMT

challenge areas: basic skills, apprenticeships, graduates (particularly engineering graduates), advanced workforce skills and the skills requirements for new growth technologies.

The Automotive Council supports the industry's bid for an Automotive Industrial Partnership under the UKCES Employer Ownership Pilot (EOP) funding stream. This bid is fundamental to the delivery of the skills roadmap and will establish a long-term infrastructure across the sector. It is an important opportunity and initiative which takes an innovative, transformational and employer-led approach to delivering skills for automotive growth including in the supply-chain.

The bid has been led and defined by employers in its strategic and participation elements. Any assessment of employer contributions needs to weigh up the cash element against the significant in-kind contributions by employers specifically wage costs incurred and the strategic nature of the infrastructure intervention proposed.

SMMT, and wider industry, are confident of the bid's success and expect to be notified imminently. We seek support to ensure that once approved, that the IP is progressed swiftly to ensure the benefits are maximised and not delayed so it can be in place for the timing required for new apprenticeship starts in 2014/15.

SMMT has also supported the automotive apprenticeship trailblazer activity, development of which has been heavily and intensively resourced by employers. The sector will shortly submit its proposal to ministers for a new apprenticeship standard which, if successful, will be formally published and rolled-out later this year. Prioritising the funding for rigorous and high-quality apprenticeships, such as those provided by automotive in engineering or manufacturing, is essential for our sector. To deliver the growth we need, such initiatives must be taken up across the sector especially in the supply-chain. Industry welcomed the Autumn Statement confirmation that SME funding routes for apprenticeships are to be reviewed and must be flexible but we would also express the need for wider consideration of funding routes for businesses of all sizes to ensure there are no barriers to take-up or participation.

Supporting supply-chain opportunities – The Sector Strategy made clear recommendations on the enablers that need to be in place to ensure all tiers, especially SMEs, in the automotive supply chain have the technology, capacity and capability to exploit and support current growth opportunities and to ensure the sustainability of the sector.

Since the Autumn Statement, SMMT has welcomed the confirmation of its AMSCI round 4 bid, which will support delivery of the Sector Strategy's supply-chain growth ambitions and opportunities. However, it is essential that Government provides long term sustained support for the supply chain by putting AMSCI and RGF on a more permanent footing and addresses the administrative issues which can inhibit applications – especially from SMEs frustrated at the onerous level of bureaucracy and other barriers such as minimum bid thresholds – and restrict government's ability to distribute funds efficiently to the companies that need the investment.

Industry continues to call for cross-governmental support for supply-chain development and the Strategy's recommendations in this area, including its recommendation that relationships with the banking sector be developed further to address finance issues and leverage investment. The UKTI Automotive Investment Organisation (AIO), launched in Summer 2013, is very welcome and is already building global relationships to maximise the supply-chain opportunity and attract inward investment. Whilst the AIO is being supported with two years of funding initially, strong and long-term support by industry and government will be critical to its success.

Globally competitive and leading in technology and innovation – Enhancing the UK as an attractive and competitive place to invest in R&D, automotive innovation and industrialisation of emerging technologies is a shared ambition of industry and government. Announcements last year of government and industry investing around £1 billion over 10 years in a new Advanced Propulsion

SMMT

Centre (APC) to support the development and industrialisation of low carbon technologies made in the UK is a clear demonstration of the long-term commitment needed. Industry now looks to government to ensure the APC is fully operational with first projects soon to be announced.

Further to this, Budget 2014 is an opportunity to enhance the UK's attractiveness as a place to invest. The recent changes to R&D tax credits were welcome but need to be at a higher, more globally competitive rate. In addition, government funding for automotive technologies, through bodies such as the Technology Strategy Board, the Knowledge Transfer Networks and catapults/APC, should be scaled up and focused on areas with significant potential. In doing so, government and industry should work together through the Automotive Council to maximise the UK's share of EU R&D (Horizon 2020) funding for automotive technologies.

Developing the ultra-low carbon market – There has already been positive industry and government collaboration in 2014 through the launch of 'Go Ultra Low', the Ultra Low Carbon Vehicle Communications Campaign which encourages consumer uptake of these vehicles as well as a high-level ministerial round-table for automotive to discuss the future of ultra-low carbon vehicle production and the market. The UK has ambitions to be a leading developer and market for low carbon vehicles and technologies, which reemphasises the crucial need of a supportive business environment for automotive with a strong and competitive domestic market that further encourages investment.

In January, SMMT submitted its views to the Office for Low Emission Vehicles (OLEV), on its ULEV strategy and approach to the allocated £500 million of funding from 2015 – 2020. In its submission, SMMT called for a continuation of a balanced approach to government's 2015 – 2020 funding package incorporating elements on consumer incentives, a strategic investment in infrastructure and increased leverage of R&D support. This included calling for the continuation of upfront national consumer incentives through the Plug-In Car and Van Grants from 2015 to 2020, that the future funding for infrastructure should be more strategic in nature, that there should be a focus scaled-up R&D support through existing funding routes such as the Technology Strategy Board as well as the £500 million government commitment to the Advanced Propulsion Centre, and that government should take a stronger lead and consider further steps for supporting ULEV adoption in the public sector fleet. Such measures to support a long-term market for ULEVs have the potential to deliver significant growth for the UK.

Engaging with industry on the future of motoring taxation

As already mentioned, the commercial vehicle (CV) market is fragile and has been and continues to be challenging. Industry has invested huge sums in the development of cleaner technologies, especially in HGVs with the introduction of Euro VI emission standards. Inevitably, such new technologies carry a premium and if operators are to be encouraged to switch to these newer vehicles – vehicles which have advancements not just in emissions but also in communication and, most importantly, safety, then greater incentivisation is required. Industry saw the extension of truck Reduced Pollution Certificates (RPC) incentives to Euro IV early adopters as a welcome signal, but weak incentive. SMMT therefore believes Treasury should consider either a temporary reduction in vehicle excise duty (VED) for Euro VI CVs or 100% capital allowances for two years. A targeted 'Green Truck Fund', building on the approach of the Green Bus Fund, is worth consideration and would support and accelerate demand, helping to ease market uncertainty on the uptake of such vehicles. Such an approach would strongly support ambitions for fleet renewal to deliver lower emissions and vehicles with newer technology and safety features.

A long-term approach with stability and certainty in the motoring tax regimes is important for automotive manufacturers, consumers and fiscal sustainability. Stability for VED in this Parliament is important and welcome, however, industry recognises that the current approach may not be sustainable beyond 2015 given the introduction and uptake of vehicles with ever lower CO_2 emissions. It is important that government engages with the sector when reviewing its approach to

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motoring taxation and that government takes a balanced approach – supporting ULEVs and also the need to support the diversity of the UK automotive industry.

Modernisation of UK motoring services/DfT agencies – In our Autumn Statement submission, SMMT welcomed ambitions to modernise the UK motoring services and agencies (DVLA, VCA and VOSA). However, we expressed concern that the current process of modernisation is underperforming and resulting in significant disruption and cost to both the automotive industry and consumers. UK motor sales, particularly in the commercial vehicle sector, are still in a state of fragile recovery and any disturbance in this balance has the potential to cause lasting damage that could stall or set the recovery back. Industry has already communicated to government its concerns on DVLA office closures and process changes, VCA reform and changes to VOSA sites and services. Early resolution of these concerns as the agenda progresses in 2014 is of vital importance to the health of the UK automotive industry, as collectively they have the potential to cause serious damage to the progress that has been made by industry and government in recent years.

I would be pleased to discuss these priorities with you or ministerial colleagues and officials at a suitable date, and look forward to hearing from you.

Yours sincerely,

Mike Hawes
Chief Executive, SMMT

CC: Rt Hon Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills
Rt Hon Patrick McLoughlin MP, Secretary of State for Transport
Rt Hon Edward Davey MP, Secretary of State for Energy & Climate Change
Rt Hon Oliver Letwin MP, Minister for Government Policy, Cabinet Office
Sajjid Javid MP, Exchequer Secretary
Nicky Morgan MP, Economic Secretary
Michael Fallon MP, Minister for Business and Enterprise

Annex: Summary table of UK automotive key asks

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ANNEX: Summary table of UK automotive key asks – Budget 2014

Theme	Key asks
A competitive business environment	• SMMT calls on HM Treasury and other key departments to engage in the Automotive Council BES workstream to deliver the measures necessary to ensure we have a competitive business environment in the UK. • Continued UK government support and engagement with the EU-US T-TIP and free trade agenda, ensuring automotive priorities are represented and NTBs addressed. • Industry has significant concerns on the complexity of the energy efficiency regimes in the UK, and SMMT reiterates its calls for simplification of regulations and reporting and, in particular, restoration of the general CCA exemption rule in the CRC. • SMMT would call for a freeze on Climate Change Levy (CCL) and Carbon Reduction Commitment (CRC) rates, for the CCL relief on gas to be raised from 65% to 75% for being in a Climate Change Agreement (CCA) and support the removal of the carbon price floor. • Ensure mineralogical and metallurgical processes still count towards CCA eligibility, Ensure exemption of these processes do not undermine CCAs for remaining sectors. • Engagement with large manufacturers on concerns over imbalances in approach to business rates.
Skills to support growth	• Support for the Automotive Industrial Partnership bid and if successful ensure that the IP is progressed swiftly so that the benefits are maximised, not delayed and can be in place for the timing required for new apprenticeship starts. • Support for automotive trailblazer and a flexible approach to funding routes for businesses of all sizes to ensure there are no barriers to take-up or participation.
Supporting supply-chain opportunities	• Government should provide long term sustained support for the supply chain by putting AMSCI and RGF on a more permanent footing and addresses the administrative issues and other barriers which can inhibit applications, especially from SMEs. • Whilst the AIO is being supported with two years of funding initially, strong and long-term support by industry and government will be critical to its success.
Globally competitive and leading in technology and innovation	• Industry now looks to government to ensure the APC is fully operational with first projects soon to be announced. • The recent changes to R&D tax credits were welcome but need to be at a higher, more globally competitive rate. • Government funding for automotive technologies, through bodies such as the TSB, the KTNs and catapults/APC, should be scaled up and focused on areas with significant potential. • Government and industry should work together through the Automotive Council to maximise the UK's share of EU R&D (Horizon 2020) funding for automotive technologies.
Developing the ultra-low carbon market	Support for SMMT calls on OLEV's ULEV strategy, including: • continuation of upfront national consumer incentives through the Plug-In Car and Van Grants from 2015 to 2020 • future funding for infrastructure should be more strategic in nature • a focus scaled-up R&D support through existing funding routes such as the Technology Strategy Board as well as the £500 million government commitment to the Advanced Propulsion Centre • consideration of further steps for supporting ULEV adoption in the public sector fleet
Engaging with industry on the future of motoring taxation	• The SMMT calls for consideration for either a temporary reduction in vehicle excise duty (VED) for Euro VI CVs or 100% capital allowances for 2 years. • A long-term approach with stability and certainty in the motoring tax regimes is important for automotive manufacturers, consumers and fiscal sustainability. • It is important that government engages with the sector when reviewing its approach to motoring taxation and that government takes a balanced approach – supporting ULEVs and also the need to support the diversity of the UK automotive industry.
Modernisation of UK motoring services/ DfT agencies	• Early resolution of industry concerns in the modernisation/transformation of motoring services/DfT agencies