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The Society of Motor Manufacturers and Traders Limited
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20 March 2003

Rt. Hon Mr Gordon Brown MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Chancellor

BUDGET 2003

The United Kingdom is not immune from the uncertainties that are currently shaping the global economy. Weak demand in many of the major world economies and the impact of falling stock market values continues to create problems for manufacturing industry. In the upcoming Budget the automotive sector urges that the Government does all it can to protect domestic demand and enhance the competitiveness of UK businesses.

It is recognised by business that the UK has benefited from economic stability and a broadly positive tax and regulatory regime, but there is great concern that these advantages are being steadily eroded. The automotive sector does not wish to see further increases in business taxes. The increase in employers National Insurance Contributions (NICs), due to take effect from April, already represents significant additional costs and any further tax increases would undermine the competitiveness of our industry.

Company Car Tax

In the light of current global uncertainties it is essential that domestic demand remains strong. In 2001 and 2002 a record number of new cars were registered in the UK with significant growth in demand from private buyers and dramatic growth in the proportion of diesel vehicles sold. The SMMT was very pleased to learn that the Inland Revenue was to establish a research programme to evaluate the impact of recent changes to company car taxation and its role in market changes.

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The motor industry believes that a full review is essential and should be completed before any further changes are made to the tax regime. There is great concern that any changes to the CO_2 banding rates could fundamentally alter the market for cars with a consequent impact on the commercial viability of the sector. The motor industry is firmly opposed to any tightening of the banding rates beyond the levels already announced for 2004/5. Any further changes in advance of the current review and evaluation would be unwise and have a detrimental impact on the health of the automotive sector.

Fuel Duty

The industry is committed to continual improvement in the environmental performance of its products and supports the fuel duty incentives to encourage the supply and take-up of 'cleaner' fuel. The intention to incentivise the introduction of fuels with zero sulphur content is welcomed by the automotive sector and will bring improved fuel efficiency, reduced environmental impacts and the introduction of newer engine technologies. This should not encourage the Government to increase mainstream fuel duties after two Budget 'freezes'.

There is concern across the vehicle industry that tax incentives offered to a range of cleaner fuels and technologies may be substantially reduced in future Budgets. It is essential for industry that there is a stable regime of incentives so that they can effectively plan the introduction of new technologies and manage the costs associated with them over a reasonable period. The SMMT would urge you to ensure that any changes to vehicle and fuel taxation are discussed with industry in advance so that companies have the opportunity to manage their product plans.

VED

The VED regime has been the subject of numerous changes in recent Budgets. Vehicle manufacturers have made substantial progress in reducing average CO_2 emissions from new passenger cars and are keen that there is now a period of stability. The launch of the Low Carbon Vehicle Partnership and the publication of the recent Energy White Paper suggest that the most appropriate mix of measures to achieve further reductions in CO_2 emissions need to be subject to careful consideration and discussion.

Promoting Automotive Research and Development

The Government has recognised the importance of R&D to long term business success. In recent Budgets the Government has introduced tax credits for small and large companies. These have been welcomed by the automotive sector, but further efforts are required to encourage global players to conduct more R&D in the UK.

The motor industry already benefits from a duty reduction on diesel fuels used for research, development and testing. The industry would like to see similar arrangements extended to petrol used for testing purposes. The automotive sector is convinced that a duty rebate would significantly improve the competitiveness of UK facilities. The cost of fuel represents up to 50 percent of the total cost of a testing programme, particular for component durability work. This can mean that fuel duty can represent up to 11 per cent of the total work cost.

A reduced rate of duty for automotive testing would increase the volume of testing work undertaken in the UK. Testing programmes for major engine and powertrain developments can last for up to 5 years. They are also just one element in much larger research and development programmes that are worth many billions of pounds. Winning more testing work would encourage other elements of these programmes to be undertaken in the UK.

Conclusion

The UK automotive sector, despite difficulties related to the exchange rate and restructuring within the sector, is in a good position to benefit from any upturn in the global economy. The breadth of volume and niche vehicle manufacturers operating in the UK, alongside world leading component and technology suppliers makes the automotive industry a valuable asset for our economy.

I hope that the Budget will reflect the views we have expressed on the issues that affect our sector. The SMMT wants to engage positively with you and your ministerial colleagues and would be happy to discuss any of the issues raised in greater detail.

Yours sincerely

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