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

Dear Chancellor

Pre-Budget Report Submission

The UK automotive sector is part of a global industry that is subject to intense competition. To succeed companies must deliver increasingly complex technological solutions to environmental and safety concerns whilst maintaining leading edge design and competitive pricing. In recent years the sector has faced considerable difficulties, but remains an essential part of the UK economy. Companies are achieving greater productivity and understand how to tackle the challenges that lay ahead.

Manufacturing
The recent statements from the Secretary of State for Trade & Industry and yourself recognising the importance of manufacturing have been warmly welcomed within the automotive sector. It is vitally important that Government supports these statements with measures that signal to global investors the benefits of the UK as a base for the automotive sector.

Economic stability, aligned to low interest rates, unemployment and inflation, has been an important factor in maintaining strong domestic demand for automotive products. This has gone some way to mitigate the impact of increased business taxes and an unhelpful exchange rate. To convince industry of its commitment to manufacturing Government must refrain from further increases in businesses taxes and ensure that new regulatory burdens do not undermine competitiveness.

The automotive sector has recognised the need to improve skills, increase investment in R&D and continue to improve productivity. The recommendations of the Automotive Innovation and Growth Team report, published in May 2002, are being implemented. Through SMMT Industry Forum and the newly established Automotive Academy the sector is working with Government to develop the tools and techniques that are needed to succeed in a competitive global industry. The sector is working hard to maximise the opportunities presented by programmes like Foresight Vehicle and the New Vehicle Technology Fund to increase investment in R&D and secure competitive advantage for UK based companies.

Pensions
There is particular industry concern about the Government's proposed pension protection fund. Under the proposed fund, firms operating defined benefit pensions would be charged a compulsory levy to establish a compensation scheme. There are serious business fears that the levy will further undermine pensions by penalising prudent companies by making them responsible for those companies that are not. There is a real danger that this could accelerate the move away from defined benefit schemes destabilising pension provision and undermining business commitment to them. The SMMT urges Government to carefully assess the impact of it proposals on pensions and competitiveness before imposing new burdens on companies.

R&D Tax Credits
The automotive sector has welcomed the introduction of R&D tax credits for large and small companies. The SMMT has submitted a detailed response to the recent consultation on defining R&D for tax purposes. The automotive sector is keen to see a straightforward application of the rules governing the tax credit. Companies are seeking openness and guidance from tax officials to ensure that this measure does provide significant encouragement to increase R&D expenditure. It would be helpful if all consumables and other directly attributable costs qualified, including prototypes, bought-in especially commissioned parts and software. In addition we would hope that pre-production and product commercial developments were also included as eligible expenditure.

Vehicle Excise Duty (VED)
The introduction of a graduated VED system has provided a clear signal to motorists about the importance of CO_2 emissions. The scheme introduced in March 2001 has been subject to revision in 2002 and 2003 with the establishment of additional bands for vehicles with CO_2 emissions below 120g/km and 100g/km respectively. These changes reinforce the target established in the Government's Powering Future Vehicles strategy, that by 2012 10 per cent of new car registrations would have CO_2 emissions below 100g/km. In view of the significant changes to the structure of VED in recent years the SMMT would urge that the Chancellor refrains from any further amendments to the structure of the system.

Fuel Duties
The revalorisation of fuel duties announced in the last Budget took effect from 1 October 2003. The Chancellor has also committed to the introduction of a 0.5pence differential for sulphur free fuels from September 2004 and a new duty incentive for bioethanol used as a road fuel, set at 20 pence below the prevailing rate for sulphur free petrol would be introduced from 1 January 2005.

The SMMT fully supports the Government's efforts to encourage the take up of zero sulphur fuels as they would provide the basis for the introduction of technologies that would improve the fuel efficiency of new cars, as well as reduce emissions from many of those already on the roads. However, we believe that a 0.5 p/litre differential is insufficient to ensure widespread availability of sulphur free fuels by Jan 2005 as required by the EU Directive. As such this will limit the deployment of low CO2 technologies that need this fuel to either enable or maximise the technology.

The motor industry has made clear that it supports the use of up to 5 per cent bio-fuels in blends of conventional fuels. Work is continuing to derive fuel quality standards for these blended fuels and when established the Chancellor should consider whether a greater incentive is required to encourage their more widespread use.

The industry has also indicated that it supports the continued use of incentives for road fuel gases. Many consumers, fuel and vehicle providers have made significant investments in promoting road fuel gases and sudden changes in these incentives would substantially undermine public confidence in new or novel technologies.

First Registration Fee
The SMMT is extremely disappointed that DVLA has decided to increase the first registration fee from £25 to £38. The fee, first introduced in April 1998, was intended to cover the administration costs of registration and licensing throughout a vehicle's life. The consultation document suggested that increases were required to fund essential initiatives to combat vehicle crime. Vehicle manufacturers have made steady progress in improving vehicle security. The latest crime figures confirm that theft of and from motor vehicles continue to decline.

The industry has supported the initiatives from Government and the DVLA to tighten up the registration system and to clamp down on those evading VED. The SMMT continues to oppose the planned increases. It is unfair that new car buyers should be made to pay for the estimated 1.75 million vehicles that remain unlicensed every year. In principle effective enforcement should be part of the registration and licensing process. Any additional measures designed to reduce the level of evasion should be self-funding.

Company Car Tax
The benefit in kind taxation of company cars has seen significant change. In April 2002 the tax was linked to CO_2 emissions and a programme of annual reductions in the level of CO_2 emissions qualifying for the minimum charge was confirmed up to 2004/5. In the last Budget the Chancellor announced in 2005/6 this minimum level would be reduced by 5g/km to 140g/km CO_2.

The Inland Revenue are currently undertaking a review of the impact of the changes made to company car tax. The SMMT had expressed a very strong view that further changes to the system should not be made until the Inland Revenue has completed its evaluation and its conclusions discussed with industry. The shift to a CO_2 basis appears to have had a significant impact on the choices made by business users. It would be unfortunate if the beneficial environmental signals delivered by the tax changes were negated by attempts to increase revenue. There is concern that further reductions in the minimum level would result in more driver opting out of company schemes and choosing older and less efficient vehicles.

Employer Provided Vans
The SMMT has provided the Inland Revenue with a detailed response to its review of the benefit in kind taxation of employer provided vans. In its comments the SMMT stressed that industry had found the existing approach straightforward, transparent and broadly appropriate.

The SMMT stressed that substantive changes to the tax structure should be supported by reliable evidence and decisions should not be influenced by unsubstantiated media comment. Vehicle manufacturers are keen to ensure that particular classes of commercial vehicle or body types are not presented as more of a private benefit than others. Any benefit is determined by access and use of the vehicle, rather than the vehicles specification. The industry takes its environmental responsibilities seriously and places a high priority on improving its products. Despite this it does not feel that changes to van tax would create any extra incentives for employers to make more environmental choices.

LowCVP
The automotive sector is actively supporting the Low Carbon Vehicle Partnership. The partnership is making good progress and a series of specific Budget recommendation have been agreed and will be submitted to you in due course. These reflect the general view that the significant changes already made to vehicle taxes need to be carefully evaluated before making decisions on further changes. The SMMT will continue to work closely with the partnership to encourage the take up of vehicles with lower carbon emissions.

The SMMT is keen to maintain an active and constructive dialogue with HM Treasury and I would welcome the opportunity to discuss with you or other ministers and of the issues I have raised. If you require further information or details on any topic please do not hesitate to contact me.

Christopher Macgowan
Chief Executive