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Higher costs and uncertainty at heart of motor industry's concerns, SMMT warns chancellor

SMMT has issued a stark warning to the chancellor ahead of the 21 March budget: manufacturers and component suppliers are treading water in the face of higher costs pressures and threats from emerging markets.

'Small to medium-sized component suppliers remain at greatest risk,' commented SMMT chief executive Christopher Macgowan. 'Regulatory costs in areas like environment and employment, as well as competition for investment and skills, make these companies particularly vulnerable to a move east – or to going under altogether. The chancellor must consider this carefully in his next Budget.'

SMMT has also warned of pressures caused by the high and sustained value of sterling, and of access to markets overseas. Doha World Trade Organisation talks have stalled and Europe remains targeted by lower-cost countries where trade barriers limit opportunities for UK-based suppliers. SMMT has urged government to use its influence to help level the playing field.

Research and development

SMMT has been encouraged by moves to simplify claims for smaller firms applying for R&D tax credits. The pre-budget report mentioned that government was aiming to include medium-sized businesses into the higher tax-relief rate. Since R&D is vital to the future of the automotive sector, SMMT has encouraged the chancellor to implement this change. Firms with little or no profit should also be allowed to obtain credits for R&D work by offsetting against National Insurance contributions.

Vehicle Excise Duty – cars, vans and trucks

SMMT has warned against knee-jerk moves to make big changes to car road tax. Motorists already pay the penalty for higher emitting cars through fuel duty, company car tax and the seven-band VED scheme. Together these taxes send a strong message to drivers who choose higher-polluting vehicles. However, the chancellor must be mindful that many drivers with large families, as well as business users, need a larger vehicle, and that a budget-by-budget bidding war on the value of the top rate is unnecessary and unhelpful.

Incentives for early adopters of Euro 4 standard vans led to a beneficial lead-in for air quality before 2006/2007 mandatory changes. Further consideration should be given to incentives for buyers of light and heavy vans that meet forthcoming Euro 5 standards, through to 2009 and 2010. Incentives for the early adoption of Euro 5 standard for cleaner trucks should also be introduced, equitably applied across all vehicle weights and classes.

Bio-fuels

Recent problems with contamination have highlighted the importance of maintaining quality standards in bio-fuel blends. SMMT believes that an initial rebate of 30p per litre should be set to meet bio-fuel production targets by 2010, but urges rigorous quality checks to accompany this incentive. Failure to do so risks damaging consumer confidence for fuels which bring significant benefits on CO_2 reduction.

DVLA fees and restructuring – an example of how not to regulate

Short lead times for regulatory changes impose an unfair burden on any industry. As a direct result of recent DVLA restructuring and hike in first vehicle registration fees, manufacturers and dealers have faced costs totalling £2 million, as well as a huge and unnecessary administrative headache. As the industry's CARS21 report made clear, proper impact assessments are central to better regulation. This must be used as an example of how NOT to do it in future.

Company car tax

Once again, SMMT has called for an immediate end to the tax penalty for drivers who choose CO_2-friendly diesel vehicles. This obsolete three per cent surcharge, not applied to drivers of petrol models, is totally at odds with government policy to encourage the take up of cars with a lower carbon footprint. It must be scrapped now.

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