

**SMMT POSITION PAPER – UK/EU
TRADE NEGOTIATIONS**

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Executive Summary

The automotive sector is a key driver of growth and prosperity across the UK, and a thriving and diverse sector will help propel the country towards a successful post-Brexit future based on international trade, productivity, research, development, digital innovation, and a rebalanced economy across all regions.

Given the integrated nature of UK automotive manufacturing and the critical importance of preferential access to the EU market to investment in the sector and its competitiveness, it is essential that government successfully negotiate an ambitious and comprehensive trade deal with the EU. This is the sector's foremost priority and it stands ready to assist government in achieving this.

UK automotive has the following priorities for the UK/EU trade agreement:

- i. **Tariffs and rules of origin** – The UK and the EU should agree a deal that guarantees tariff free trade in automotive. The UK and EU should negotiate a standalone rules of origin chapter and protocol that takes into account the uniquely integrated nature of UK/EU trade and goes beyond existing precedent. A phase-in period of up to nine years should be agreed to provide all manufacturers and suppliers with sufficient time to adapt systems, process and contracts to the new trading relationship, and complete their current model cycles. During this period, exceptionally simple rules of origin should apply.
- ii. **Regulatory Provisions** – The UK and EU should agree a new framework for regulatory cooperation and dialogue in relation to automotive. This should start from a position of complete alignment, recognising that the UK and EU currently share the same rules, and be supported by a robust governance framework. In addition, the significant cost of additional testing should be avoided by the UK choosing to align with EU technical regulations and seeking mutual recognition for its type approval framework.
- iii. **Customs** – The UK and EU should agree to the most comprehensive and deepest level of cooperation in relation to customs, with the objective of minimising delays and disruption on both sides of the border.
- iv. **People** - The UK and EU should agree provisions that ensure that vehicle manufacturers and suppliers can move staff between sites in the UK and the EU without any unnecessary restriction, delay or cost.
- v. **Third Country Trade** - The UK should ensure that preferential trade with third countries continues without any disruption after a deal with the EU is agreed. Priority should be given to securing trade deals with Turkey and Japan, alongside those with Mexico, Canada, and other major preferential automotive partners.

1. Introduction

- 1.1. The automotive sector is a key driver of growth and prosperity across the UK. 168,000 people are employed directly in automotive manufacturing and 823,000 across the sector as a whole.
- 1.2. Automotive is a significant investor in research and development and one of the UK's most productive sectors. It is a hub for digital innovation, as manufacturers compete to develop the next generation of ultra-low emission, connected and autonomous vehicles. It is also a global trade powerhouse that generates more than £100 billion in trade for the UK. It is the UK's largest single exporter of goods, accounting for 14.4% of total goods exports¹.
- 1.3. A thriving and diverse automotive sector will help propel the UK towards a successful post-Brexit future based on international trade, productivity, research, development, digital innovation, and a rebalanced economy across all regions of the country. The sector's fundamentals are strong, but if it is to continue to thrive, it needs government to create an internationally competitive business environment in the UK, and secure a comprehensive and ambitious trade deal with the EU.
- 1.4. The EU is the sector's most important market and its most important trading partner. 54.8% of cars built in the UK are exported to the EU, compared to 18.9% to the United States and 5.3% to China.² In addition, competitive, just-in-time manufacturing in the UK relies upon the rapid movement of high volumes of components to and from the UK and the EU. Every day, at least 1100 trucks deliver components worth £42 million from the EU to UK vehicle and engine manufacturing plants.
- 1.5. Given the integrated nature of UK automotive manufacturing, and the critical importance of preferential access to the EU market to investment in the sector and its competitiveness, government successfully negotiating an ambitious and comprehensive trade deal with the EU is the sector's foremost priority. UK automotive stands ready to assist government in achieving this.

¹ 2019 UK Automotive Trade Report

<https://www.smmt.co.uk/wp-content/uploads/sites/2/2019-UK-AUTOMOTIVE-TRADE-REPORT.pdf>

² <https://www.smmt.co.uk/2020/01/uk-car-output-falls-as-industry-targets-world-class-fta-that-keeps-auto-building-for-britain/>

2. Automotive Priorities for the UK/EU Trade Negotiations

Tariffs and Rules of Origin

- 2.1. It is critical that the UK agree a zero tariff deal with the EU on automotive. Such a deal should ensure that no tariffs are applied on finished vehicles and all automotive products needed for the production and commercialisation of finished vehicles, engines, parts and components. It is, therefore, welcome that the Political Declaration agreed between the UK and EU alongside the Withdrawal Agreement commits both sides to an economic partnership that “ensures no tariffs, fees, charges or quantitative restrictions”³ to trade. Given that the UK and the EU already trade on zero-tariff terms, duties on completely built units and on all automotive parts should be zero from entry into force of any agreement.
- 2.2. However, an agreement on tariffs will not be sufficient if the accompanying provisions on rules of origin do not enable all UK manufacturers and suppliers to trade tariff-free in the short, medium and long-term. To ensure tariff free trade with the EU, the UK should negotiate a standalone rules of origin chapter and protocol allowing tariff free trade for all automotive products processed or assembled within, and moved between, the UK and the EU.
- 2.3. The UK’s trade agreement with the EU should go beyond existing precedents for rules of origin, taking into account the uniquely integrated nature of UK/EU trade, and current and future trends in the automotive sector, including the development of ultra-low, hybrid and zero emission vehicles. The UK and EU should agree on alternative rules of origin for all automotive products. These rules should set lower regional value content thresholds compared to standard EU trade agreements, allow a much broader use of change of tariff heading and tariff sub-heading provisions and include simple product-specific processing rules.
- 2.4. The UK and EU should also agree to a phase in period for rules of origin requirements. This should provide manufacturers and suppliers with sufficient time to adapt their systems, process and contracts to a new trading relationship that will necessitate the provision of rules of preferential origin declarations. Since UK and EU automotive manufacturers currently operate within the single market, there has been no need to differentiate content that originates from the UK, from content originating from the 27 other EU member states. As a result, manufacturers and suppliers in both the UK and EU will

³ *Political Declaration setting out the framework for the future relationship between the European Union and the United Kingdom*, para 22
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840656/Political_Declaration_setting_out_the_framework_for_the_future_relationship_between_the_European_Union_and_the_United_Kingdom.pdf

need time to complete existing model cycles and adapt processes, procedures and contractual relationships after a new trade deal is agreed, so that they can take into account the need to prove origin in trade between the UK and the EU. Negotiators must recognise the exceptional nature of trade between the UK and the EU, and the time that will be required to adapt.

- 2.5. A phase in period of up to nine years should, therefore, be included in the agreement. At the beginning of the phase in period, exceptionally simple rules of origin should apply to both finished products and parts. In recognition of the UK and EU's current, uniquely integrated, trading relationship, exceptional simplifications should continue for the duration of the phase-in period for suppliers of parts and components, operators that have largely traded exclusively in the context of the single market and have no previous experience in complying with rules of origin.
- 2.6. To reduce the administrative burden and facilitate compliance with rules of origin, modern origin provisions and related formalities should be agreed by the parties. Facilitative measures include, but are not limited to, the option to calculate origin by averaging content by model and factory, increased tolerance thresholds for non-originating materials and outsourced processing, longer validity of origin proofs, retrospective claims, duty exceptions for value added in the territory of the parties included in non-originating goods, modern rules on non-alteration and split shipments. At least for a limited period, importers and exporters should be allowed to file retrospective preferential origin declarations without the need to pay tariffs in the first place. Examples of many such facilitative measures can be found in existing EU trade agreements.
- 2.7. An ambitious deal should ensure bilateral full cumulation to preserve the value created by the highly integrated supply chain of the UK automotive sector. In addition, improving upon provisions already included in major EU agreements with Canada and Japan, negotiators should agree on measures allowing for full, multi-lateral cumulation of automotive content originating or processed in key trading partners of both the UK and the EU, such as Japan, South Korea, South Africa, Euro-Mediterranean countries and any other significant common preferential trading partner. Such measures should be supported by robust administrative cooperation between the relevant trading parties, and are essential to preserving the increasing integration of international value chains going beyond Europe, in particular for the production of next generation vehicles.
- 2.8. Should the UK and EU fail to agree a zero tariff deal with appropriate rules of origin provisions, or provide sufficient adaptation time, manufacturers will face a 10% tariff on finished vehicles and a 2-4% tariff on components (in effect, a no-deal scenario) when importing into the UK from the EU and exporting to the EU. A 10% tariff on finished vehicles alone would cost the sector £4.5

billion annually, seriously undermining competitiveness and the business case for investing in manufacturing in the UK.

Regulatory Provisions

- 2.9. Regulatory alignment with the EU, and the consequent removal of technical barriers to trade (TBTs) in automotive goods, has played a critical role in providing UK manufacturers with unrestricted access to the EU market, which, in turn, has supported the competitiveness of the sector in the UK.
- 2.10. We respect the UK's objective of securing regulatory sovereignty following its withdrawal from the EU, and the desire to retain the right to diverge in some areas of the economy. However, we do not believe that regulatory divergence in automotive would benefit the sector or the UK economy.
- 2.11. Regulatory divergence would significantly increase the cost of doing business for UK-based manufacturers, particularly if it resulted in the development of a unique UK testing regime. Were full duplication of testing to result, this could add an additional £50,000 to £100,000 to the cost of approvals for a volume model and upwards of £500,000 in the case of a high performance model. In the case where approval is needed for a completely new vehicle type, the need for duplicate prototype vehicles and components could add a further £250,000 - £500,000 to the cost of approvals for a volume model. Given the fine margins that automotive manufactures operate on, this level of additional cost would have a serious impact on profitability for UK manufacturers.
- 2.12. We believe that the UK should choose to remain fully aligned with the EU type approval framework, and secure agreement within the trade deal for mutual recognition of its type approval framework. This would ensure that the costs associated with duplicate testing are avoided.
- 2.13. In addition, we believe that the trade deal should create a new framework for regulatory cooperation and dialogue between the UK and the EU. This should start from a position of complete alignment, recognising that the UK and EU currently share all the same regulations. Both parties should aim to align all technical regulations related to automotive, including those related to emissions, as well as environmental regulations related to the automotive sector, including, but not limited to end-of-life vehicle regulation, waste management and product specific recycling requirements, as well as regulation related to new digital technologies, including those governing the use of data.
- 2.14. The framework for regulatory cooperation and dialogue should be supported by robust governance that obliges both sides to notify the other in advance of regulatory changes, and provides mechanisms for the potential impact of

divergence on market access and the cost of doing business to be assessed in advance of new regulations coming into force.

- 2.15. These provisions would help ensure that technical barriers to trade do not emerge. Such barriers would disadvantage UK manufacturers, as market access would be reduced. In addition, the emergence of divergent technical regulations in the short, medium or long-term would increase design, testing and manufacturing costs, making the production of some models for the UK market unprofitable, leading to reduced consumer choice, while others would become more expensive for UK consumers. It is critical that negative outcomes such as these are avoided.
- 2.16. Finally, as part of an overarching commitment to regulatory cooperation, the UK and the EU should also commit to continue to work together to shape future regulations at the international, UNECE level.

Customs

- 2.17. Basing the new UK/EU trading relationship on the provisions permissible in a free trade agreement will significantly change the administrative processes related to the movement of goods between the UK and the EU. There is a risk that the trade agreement between the UK and the EU results in increased friction at the border. Delays to the arrival of components at manufacturing plants are measured in minutes. Every minute of delay could cost approximately £50,000 in gross value added to the industry, totalling over £70 million per day⁴. For automotive manufacturers, border delays are unacceptably disruptive, and if the sector in the UK is to remain competitive, these must be avoided.
- 2.18. The Political Declaration states that the UK and EU envisage “comprehensive arrangements that will create a free trade area, combining deep regulatory and customs cooperation”⁵, as well as “ambitious customs arrangements”⁶. The automotive sector welcomes this ambition. Given the geographical proximity of the UK and the EU, and the highly integrated nature of the sector,

⁴ Based on a five-day working week. *2019 UK Automotive Trade Report*

<https://www.smmt.co.uk/wp-content/uploads/sites/2/2019-UK-AUTOMOTIVE-TRADE-REPORT.pdf>

⁵ *Political Declaration setting out the framework for the future relationship between the European Union and the United Kingdom*, para 21

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840656/Political_Declaration_setting_out_the_framework_for_the_future_relationship_between_the_European_Union_and_the_United_Kingdom.pdf

⁶ *Political Declaration setting out the framework for the future relationship between the European Union and the United Kingdom*, para 22

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840656/Political_Declaration_setting_out_the_framework_for_the_future_relationship_between_the_European_Union_and_the_United_Kingdom.pdf

we believe that both sides should aspire to a future trading relationship that provides for the most comprehensive and deepest level of cooperation possible in relation to customs, with the objective of minimising friction and delay on both sides of the border.

- 2.19. Specifically, the free trade area envisaged by the UK and EU should make provision for:
- a. Simplified customs procedures to facilitate trade between the UK and the EU with a view to minimising costs and burdens for importers and exporters;
 - b. A shared trusted trader scheme that allows as many automotive companies as possible to have goods cleared at the point of destination or before shipment, and avoid the need to stop at the border;
 - c. Information and data sharing between customs authorities so as to facilitate the smooth movement of automotive goods through points of entry into the UK and the EU;
 - d. Cooperation between customs authorities in the UK and EU member states;
 - e. The development of a fully interconnected and interoperable single window system to facilitate trade by, among other things, converging import and export data and documentation requirements and establishing a single location for documentary and physical verification of consignments;
 - f. A transparent and robust arbitration framework as part of the overarching governance framework of the deal.
- 2.20. In addition to seeking these provisions in the trade deal, the UK should fully implement the Union Customs Code. It should also aspire to become a global leader in trade logistics and make the necessary investment at all points of entry and exit to promote the rapid movement of goods to and from all global trading partners.

People

- 2.21. UK automotive manufacturers form a critical part of wider European operations. The productivity and competitiveness of those businesses, and the plants based in the UK, depend upon manufacturer's ability to move staff of all levels quickly between sites across Europe. Many of these journeys last for an undetermined period of time with a variety of activities taking place from attending meetings and sharing experiences to working on the production line and supporting the launch of a new vehicle. The UK/EU trade agreement should ensure that these movements and activities, for people of all levels, can continue without any unnecessary restriction, delay or cost.

- 2.22. In addition to the provisions agreed in the UK/EU trade deal, government should work with the automotive industry to develop a comprehensive and long-term skills strategy that supports the needs of the sector as it pursues significant technological advances. Developing a new immigration policy that supports the competitiveness of UK automotive will be a critical part of this.

Third Country Trade

- 2.23. While the UK's broader international trade agenda will be pursued through negotiations separate to those with the EU, particular attention has to be paid to sequencing of discussions with Turkey, Japan, South Korea, Mexico and Canada, to ensure continuity in preferential trade with these countries.
- 2.24. Turkey is a critical trading partner for UK automotive. Automotive ranks first both in terms of bilateral imports in and exports from Turkey to the UK. The UK imports more than 175,000 vehicles from Turkey every year; Turkey is the second largest export destination for UK engines after the EU and the fifth biggest export market for UK cars. Moreover, the UK imports over a quarter of a billion pounds worth of components from Turkey whilst exporting about half of this figure to Turkey.
- 2.25. It is essential that the UK does not find itself facing a no-deal scenario in relation to Turkey and steps should be taken now to ensure that the necessary administrative and legal structures and procedures are put in place to ensure that a new UK/Turkey trade deal can be ratified immediately after the UK/EU deal.
- 2.26. A swift conclusion of negotiations with Japan replicating the key elements of the EU-Japan Economic Partnership Agreement is also critical, and essential if full, multi-lateral cumulation of Japanese automotive content is to be secured.
- 2.27. We call on the UK government to continue to pursue the replication of existing trade agreements with all remaining preferential trading partners that have yet to agree on continued preferential treatment beyond the implementation period. In particular, replicated bilateral agreements with Mexico, Canada, and other major preferential automotive partners must be finalised in parallel with negotiations with the EU. Failing to do so will result in additional tariffs on UK automotive exports at a moment when we see new barriers erected between the UK and its biggest trading partner, the EU.

3. Preparedness

- 3.1. While the specifics of the UK's future trading relationship with the EU will not be known until the end of the year, it is already clear that the new relationship will fundamentally change the way that businesses trade with the EU.
- 3.2. Given this, government should ensure that vehicle manufacturers and suppliers are provided with sufficient time to adapt to the new trading relationship by agreeing appropriate phase-in periods with the EU.
- 3.3. In addition, government should continue to work with the automotive industry to ensure that those companies that make-up the UK's largest trading sector, are fully prepared for the changes that will come into force next year.
- 3.4. We believe that **joint industry and government** efforts should focus on three broad areas:
 - a. **Raising Awareness** – ensuring that vehicle manufacturers and suppliers of all sizes understand that from 1 January 2021 there will be changes in the areas of customs and trade, regulation and immigration.
 - b. **Training** – provide business representatives with the knowledge and skills required to understand the impact of the new trading landscape, including through the provision of comprehensive customs training for automotive SMEs that have previously only traded with the EU, and will be importing and exporting for the first time following the agreement of a UK/EU trade deal
 - c. **Action** – taking the learnings from training sessions back into the business and making the necessary changes to operations at the earliest opportunity with the option for further assistance where it is required.
- 3.5. In addition, government should take specific steps to ensure that traders have access to, and take advantage of, all the relevant easement that will accelerate the movement of goods across the border. These should include:
 - a. Exploring whether there remains a role for Transitional Simplified Procedures;
 - b. Continuing the roll out of EORI numbers to automotive manufacturers;
 - c. Supporting manufacturers that seek AEO status, including by simplifying the requirements for securing AEO status.

About SMMT and the UK automotive industry

The Society of Motor Manufacturers and Traders (SMMT) is one of the largest and most influential trade associations in the UK. It supports the interests of the UK automotive industry at home and abroad, promoting a united position to government, stakeholders and the media.

The automotive industry is a vital part of the UK economy accounting for **£82 billion turnover and £18.6 billion value added**. With some **168,000 people employed** directly in manufacturing and 823,000 across the wider automotive industry, it accounts for **14.4% of total UK export of goods and invests £3.75 billion each year in automotive R&D**. More than **30 manufacturers** build some **70 models** of vehicle in the UK supported by **2,500 component providers** and some of the world's most skilled engineers.

More detail on UK automotive available in SMMT's Motor Industry Facts 2019 publication at smmt.co.uk/facts19

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