

**SMMT POSITION PAPER  
AUSTRALIA AND NEW ZEALAND TRADE  
NEGOTIATIONS**

**OCTOBER 2020**

## Introduction

1. The Society of Motor Manufacturers and Traders (SMMT) is one of the largest and most influential trade associations in the UK. SMMT is the voice of the UK motor industry, supporting and promoting its members' interests, at home and abroad, to government, stakeholders and the media. SMMT represents more than 700 automotive companies in the UK, providing them with a forum to voice their views on issues affecting the sector, helping to guide strategies and build positive relationships with government and regulatory authorities.
2. The automotive sector is a key driver of growth and prosperity across the UK. 168,000 people are employed directly in manufacturing and 823,000 across the wider automotive industry. More than 30 manufacturers build in excess of 70 models of vehicle in the UK supported by 2,400 component providers and some of the world's most skilled engineers. A major hub for digital innovation and technological advancement, UK automotive invests £3.75 billion each year in research and development and is one of the UK's most productive sectors.
3. In addition, the industry is a vital part of the UK economy accounting for more than £82 billion turnover and £18.6 billion value added. Automotive generates more than £100 billion in trade for the UK and is the UK's largest single exporter of goods, accounting for 13% of total goods exports.<sup>1</sup>
4. The UK has deep and long-standing ties with Australia and New Zealand. Negotiating both future trade agreements provides government with an opportunity to build on the historic ties, close relations and shared values which already exist between the UK and both partners.
5. For UK automotive, Australia and New Zealand are important trading markets. With the removal of domestic car production plants, both countries predominantly import manufactured goods, and this can be seen reflected by the fact that the UK exports more cars to Australia than any other product. Coach production and body building retains a significant presence in Australia, and significant opportunities are possible for both heavy duty vehicles and the UK aftermarket sector exporting to both markets.
6. Both countries are set to see strong market growth in the coming years. Australia, which is currently the UK's sixth largest export destination for cars, is predicted to be the 10<sup>th</sup> largest growth market for the period 2019-2025. With a favourable business environment, the automotive industry especially, can benefit from this growth.
7. As such, the ongoing trade negotiations with Australia and New Zealand are a step in the right direction to improve market access to these markets. The automotive industry is supportive of the government's ambitions to secure a free trade agreement (FTA) with both nations and ensuring both markets remain pivotal for UK automotive must be a priority of the government during negotiations, given the prominence of automotive exports in the bilateral trade exchanges.

## Executive Summary

8. National automotive production in Australia and New Zealand is exceptionally limited, and so the majority of vehicles on the roads in both markets are imported. While a substantial proportion of these vehicles arrive from Japan as a result of the closer proximity, the UK is not an insufficient contributor to both countries and significant trade links still remain between the UK, Australia and New Zealand.

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<sup>1</sup> 2020 UK Automotive Trade Report, <https://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-Automotive-Trade-Report-2020.pdf>

9. For Australia, cars represent the second biggest imported good and delivery trucks are ranked fourth (OEC). New Zealand, meanwhile, has publicly expressed its desire to secure a UK-New Zealand deal that supports the bilateral trade of vehicles and parts, as the primary imported goods from the UK.

### **UK-Australia Trade**

10. The UK enjoys a significant surplus in trade of passenger cars with Australia. In 2019, UK car exports were worth £560 million, while imports of passenger vehicles were worth just £9.4 million in the same period.
11. In terms of export volumes, Australia accounted for 1.9% of UK car exports, with over 20,000 cars exported. This ranks Australia as the sixth biggest export destination for UK-built cars, behind the EU, the U.S., China, Japan and Canada.<sup>2</sup>
12. The UK also enjoys a trade surplus in trade of parts and components with Australia. In 2019, UK suppliers' exports were worth £79 million, while UK automotive operators imported £24 million in parts and components from Australia (HMRC data). In 2019, Australia was the eight biggest export destination market for UK parts and components if we consider the EU as a single export destination.
13. Moreover, Australia is a key growth market. Car registrations are expected to grow by 16% between 2019-2025, although the share of the world market is predicted to remain unchanged at 1%. Light Commercial Vehicle (LCV) registrations are expected to increase by 10.5% by 2025 and similarly, light vehicle registrations are projected to grow by 15.7% by 2025 compared to 2019.

### **UK-New Zealand Trade**

14. Meanwhile, bilateral trade of automotive products between the UK and New Zealand is small, but not insignificant. In 2019, the UK exported motor vehicles to New Zealand totalling £238 million, while the UK imported just under £2.2 million motor vehicles.
15. The UK exports value of engines to New Zealand, is much more significant, totalling £637 million in 2019, while the value of parts, accessories and components was a modest £10.5 million. Meanwhile, imports of parts, accessories and components was below £1 million.
16. Car registrations in New Zealand are also expected to grow by just over 5% between 2019-2025, although their share of the world market is predicted to remain unchanged at 0.1%. LCV registrations are expected to increase by 0.3% by 2025. Similarly, light vehicle registrations are projected to grow by 3.9% by 2025 compared to 2019.
17. The opportunities that trading with New Zealand brings must sensibly reflect both the importance of automotive in terms of UK exports, but also the small size of the domestic vehicle market when compared to the UK.
18. On the one hand, New Zealand's vehicle market in the 2012-2017 time period has doubled. Vehicle sales volume grew up from 100,000 in 2012 to 206,000 in 2017, hitting the current all-time record. However, recent years have somewhat seen a reversal of this trend, with total annual volumes experiencing a sharp drop in both 2018 and 2019, with only 154,406 sales recorded in the past year.

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<sup>2</sup> SMMT 2020 Trade Report, <https://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-Automotive-Trade-Report-2020.pdf>

19. Nevertheless, New Zealand vehicles sales were able to strongly recover in May 2020 after a freeze in April, as the country efficiently addressed the coronavirus pandemic. 8002 units were registered in May, down 40.9%, leading YTD sales to 40,760 (-35.3%).
  
20. UK automotive supports the following priorities in Australia and New Zealand trade negotiations:
  - i. Tariffs – tariffs on both finished vehicles and parts should be fully liberalised after the entry into force of the FTAs with Australia and New Zealand.
  - ii. Rules of Origin – The UK should negotiate workable rules of origin for finished vehicles and parts and components which reflects the UK's supplier base.
  - iii. Regulatory barriers – In their respective agreements, the parties should include a dedicated Automotive Annex addressing regulatory barriers. The two Annexes should ensure that both Australia and New Zealand will fully accept UNECE regulations and commit to enhanced cooperation.
  - iv. Customs – An agreement on customs procedures should focus on eliminating unnecessary controls and improve the efficiency of customs clearances.
  - v. Future opportunities – Government should negotiate a favourable business environment to aid UK business efforts to source battery components and raw materials from Australia where appropriate.
  - vi. Labour mobility – Automotive would welcome measures to further facilitate movement of personnel, professionals and business visitors.

## **Automotive Priorities for UK – Australia and UK – New Zealand trade Negotiations**

### Tariffs

21. High value exporting sectors such as the automotive industry have growth opportunities through enhancing trade relationships with key markets and facilitating the opening up of new markets.
22. Australia applies tariffs up to 5% on passenger cars, commercial vehicles, busses, other finished vehicles, parts and components. New Zealand has almost entirely liberalised imports of finished vehicles except special purpose vehicles, while an average 4.3% tariff still applies on parts and components.
23. With Australia's local production of passenger cars and CV's have ceased since 2017, eliminating tariffs on all UK automotive products upon entry into force of an agreement should be a major offensive interest of the UK government during negotiations. It is in the interest of UK-based businesses to enjoy the preferential market access conditions that key competitors already benefit from through agreements such as the Australia-US FTA and the Australia-China FTA.
24. Tariffs on UK automotive products should be fully liberalised also after the entry into force of an agreement with New Zealand. New Zealand has a 0% MFN tariff on passenger cars, so while there would be no tariff benefits for the UK's most exported commodity to New Zealand, there is a benefit to be gained for automotive parts and components by negotiating the removal of these tariffs.

### Rules of origin

25. Preferential rules of origin should take into account and reflect the UK supplier base following its withdrawal from the EU. A future UK- Australia and UK-New Zealand FTA is likely to be unworkable and devoid of any benefit for the sector if negotiators agree rules of origin without reflecting the UK suppliers' base at the end of the transition period.
26. Standard value-added thresholds contained in EU trade agreements are likely to be unattainable for the majority of UK automotive operators if they will need to rely on UK-only content. Due to very low levels of integration between UK and Australia and New Zealand automotive supply chains, full cumulation is also likely to be insufficient to qualify for preferential treatment on the basis of standard rules.
27. Absent the possibility to cumulate UK and EU content, negotiators should seek to agree lower value-added thresholds or alternative rules such as change of tariff heading. It is imperative that regional value-added thresholds – as well as alternative rules such as change of tariff heading and process-specific rules – will be defined through sectoral discussions between UK negotiators and the automotive industry.
28. Should future arrangements set value added thresholds in line with most common precedents currently applicable to UK's FTAs, the agreements with Australia and New Zealand should therefore allow UK automotive operators to cumulate EU content to reach high levels of regional value added.
29. Rules of origin should allow full cumulation between the UK and Australia and the UK and New Zealand. The UK should explore all available cumulation options, including provisions foreseeing the possibility to allow diagonal or customised cumulation with the EU and third countries with which Australia, New Zealand and the UK could conclude bilateral trade agreements in the future.
30. Forward looking rules of origin should also set low value threshold for electric batteries and components essential for electric vehicles. For these parts and components, low value-added thresholds, change of tariff subheading or simple processing rules should be offered as alternatives.

#### Regulation

31. The agreements with Australia and New Zealand should include dedicated Automotive Annexes addressing sectoral regulatory issues. The priority for the UK automotive sector remains agreeing new trading terms with the EU allowing the mutual recognition of type approval certificates for whole vehicles, parts and subsystems, as well as the mutual recognition of test reports. Any agreement between UK – Australia and UK – New Zealand regarding regulatory equivalence or similar arrangements must take into consideration implications for the UK's trade with its biggest partner.
32. With regards to existing automotive regulations, Australia already widely accepts international UN regulations and certificates. There are a few areas where automotive manufacturers perceive that UN Regulations are not yet fully accepted. These areas include child restraint anchorages, vehicles jacks, underbody exhaust temperatures, ADR 69 – flat barrier test, license plate, certification label, build date, tyre labels. Building upon the replicated UK-Australia mutual recognition agreement, the inclusion of relevant regulations in the dedicated Annex would further improve market access for UK-built parts and vehicles. Both Annexes with Australia and New Zealand should establish facilitative mechanisms to resolve any dispute arising from the application of the sectoral agreements.
33. Slight regulatory differences exist between the UK and Australian market for the manufacturing of coaches, commercial vehicles and body builders, particularly with regards to dimension and mass building requirements. This is largely due to the different size of vehicles produced for each market. There are also several different safety requirements, such as the need for

Australian coaches to include Roo bars and pass a Government corrosion inspection once the vehicle is 20 years old.

34. The UK currently exports a significant number of minibuses, CV's, components, machinery and vehicle add-on parts to both Australia and New Zealand which are products desired for their design, technology and build methods. Should the agreements pave the way for future regulations developed by the UK for these products to be deemed compatible by Australian and New Zealand regulators, the Annexes could act as a substantial stimulus to grow coach, CV, supplier and aftermarket exports to these markets.
35. With regards to future regulatory developments, the Annexes with Australia and New Zealand should provide a framework for enhanced cooperation in the development of international regulations. The parties could also explore the benefits of recognising testing results for new generation vehicles, in particular autonomous vehicles' virtual test reports.
36. For future regulations, avoiding UK-unique regulations is essential. An FTA aligning the UK to future Australian or New Zealand standards would create a hybrid model. UK-specific standards would disrupt market access to the industry's key markets and result in a competitive disadvantage for the entire UK automotive sector.
37. Australia's Luxury Car Tax (LCT) is currently the country's main non-tariff barrier for UK automotive manufacturers. This 33% luxury tax is applied above the value of AUD 64,132 (approximately £35,000) for regular cars and AUD 75,526 (approximately £40,000) for fuel efficient vehicles. No tax on other 'luxury goods' exist in the country. Given that local automobile production ceased in 2017, it exclusively affects imported cars exceeding the aforementioned thresholds.

#### Customs

38. Existing customs procedures and border enforcement rules can cause high additional costs for some UK automotive companies. Costs can be borne through additional headcount and IT systems needed to navigate customs systems and processes.
39. Without prejudice to the future customs relationship between the UK and the EU, any agreement on customs procedures should focus on eliminating unnecessary controls, allow for efficient customs clearance taking into account participation in international supply chains and strengthen the actual benefits to which trusted partners have access.

#### Future opportunities

40. Australia especially, represents a possibility for the UK to diversify its supply chain and reduce its dependency on specific regions for sourcing raw materials. An example could be the supply of cobalt, a key material for the manufacturing of electric batteries. Today, cobalt extraction is largely concentrated in the Democratic Republic of Congo, but Australia holds the potential to scale up production in the future and become an alternative supplier as businesses look to make their EV battery supply chain more sustainable.
41. The same applies for rare earths, raw materials that are relatively abundant but that are mainly extracted and processed in China for a great variety of industries, including automotive.
42. Indeed, Australia plays a major role in supplying lithium, a crucial element for a battery electric vehicle. Australia produces 67% of the world's lithium, significantly more than any other countries and ahead of Chile (15%), China (6%) and Argentina (5%). Ensuring a favourable business environment to ensure the UK businesses have access to these critical materials must be addressed in future negotiations and negotiations should acknowledge the role emerging and future technologies may play in bilateral trade between both countries.

43. Similarly, an open business environment for mobility service providers is of growing interest for automotive businesses. Automotive products are increasingly offered in conjunction with competitive financial packages. Ensuring that UK financial services and insurers will be able to further penetrate the Australian market could be beneficial for UK automotive exporters and investors.

Labour mobility

44. Without prejudice to the future relationship between the UK and the EU, increased mobility between the UK and CPTPP countries could help the industry to develop the capabilities and leadership abilities of the UK workforce. Any measure reducing or removing barriers not covered by the movement of people for business purposes and between business units globally would be welcomed.

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