

SMMT POSITION PAPER
UK-U.S. TRADE NEGOTIATIONS

MAY 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 2,500 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 14.4% of total goods exports.¹
4. SMMT welcomes the decision by both the UK and U.S. executives to prioritise negotiations for a comprehensive and mutually beneficial trading relationship. The U.S. is a hugely important market to the UK automotive sector and our second biggest trading partner, after the European Union. Reciprocal trade and investment between both countries has created high-value jobs, both in large manufacturers as well as parts, components and service suppliers, and has generated millions of pounds for the UK economy.
5. Given the integrated nature of UK automotive manufacturing and the need to secure UK competitiveness by maintaining preferential access to the EU market, it is of critical importance that UK-U.S. negotiations do not result in commitments that might sensibly reduce EU market access.

Executive Summary

6. The outcome of the ongoing negotiations between the UK and the U.S. are of great significance to many automotive companies based in the UK. The UK is home to more than 30 sites dedicated to U.S. automotive manufacturers and supply chain companies, including: Ford Motor Company; Leyland Trucks; Delphi Technologies; Cummins; and Caterpillar.
7. In a public impact assessment paper published at the beginning of the year, government predicted almost all sectors are estimated to increase output as a result of a future UK-U.S. FTA. For motor vehicles and parts, government estimates a one per cent increase in Gross Value Added (GVA) in all scenarios. The composition of UK automotive employment could also increase by between 0.05 – 0.5%.
8. As the UK looks to improve its trading relationship with the U.S., the UK automotive sector must be prioritised in upcoming negotiations. The UK and U.S. automotive sectors share a significant bilateral trading relationship. In 2019, the U.S. was the UK's second largest export market after the EU, with 199,599 cars exported, and the sixth biggest import market, with 30,533 cars arriving from across the Atlantic. The trading relationship in parts and components is also significant, with exports to the U.S. valued at £366 million in 2019. Meanwhile, the U.S. is the second largest import market after the EU, with 3.9% of parts, accessories and components imported from the U.S., worth £497 million.

¹ 2019 UK Automotive Trade Report, <https://www.smmt.co.uk/wp-content/uploads/sites/2/2019-UK-AUTOMOTIVE-TRADE-REPORT.pdf>

9. Negotiation objectives should also be assessed in the context of both current and future economic ties. Bilateral UK-U.S. trade has grown in recent years following a period of relative stagnation. However, automotive exports to the U.S. are expected to decline in the near future with a major global carmaker ending manufacturing operations in the UK. With technological developments progressing around automation, connectivity and electrification, a UK-U.S. trade deal must encourage growth to continue, as well as look to address some of the existing market access barriers to trade with the U.S., without creating new barriers to trade between the UK and other trading partners.
10. UK automotive would like to see the following areas addressed in a UK-U.S. trade agreement:
 - i. Tariffs – The UK government should aim to secure an agreement on the progressive removal of tariffs on all automotive products.
 - ii. Barriers to market access – The UK and U.S. should look to reduce existing and future regulatory barriers to trade and improve customs and trade facilitation procedures. The reduction of bilateral technical barriers to trade should not result in new obstacles to trade with other key trading partners, lower safety and environmental standards or UK-specific technical standards and regulations. The UK should also aim to build on previous market access discussions that took place during negotiations for the Transatlantic Trade and Investment Partnership (TTIP).
 - iii. Customs facilitation measures – Both parties should mutually recognize the AEO (UK) status post-Brexit and the U.S. CTPAT program.
 - iv. Rules of Origin – The parties should establish workable rules of origin that ensure preferential access to both markets.
 - v. Trade disputes – Negotiations must ensure that bilateral trade of preferential and non-preferential automotive products will not be undermined by additional tariffs in the future.
 - vi. Labour mobility – Automotive would welcome measures to facilitate movement of personnel, professionals and business visitors.
 - vii. Small Volume Manufacturers (SVMs) - An ambitious trade agreement should also include provisions reducing regulatory barriers for SVMs and provide adequate support and flexibilities for this industry segment.
 - viii. Small and medium-sized enterprises (SME's) – SMMT welcomes early indications that a future agreement will include a specific SME chapter. Facilitations for automotive SMEs could help reduce entry costs.
11. A UK-U.S. free trade agreement should aim to build on our existing trade and investment relationship, benefiting both economies, whilst ensuring that we meet our international obligations and maintain high environmental and safety standards.

Automotive priorities for the UK – U.S. trade negotiations

The progressive removal of tariffs

12. UK automotive welcomes the ambitions of the government to achieve mutually beneficial tariff cuts. High-value exporting sectors such as the automotive industry have significant growth opportunities through enhancing trade relationships with key markets and facilitating the opening up of new markets.
13. Current tariffs in the UK for key finished vehicles are 10% for passenger cars – including pickup trucks – and 22% on commercial vehicles. The U.S. imposes a tariff of 2.5% on passenger cars and 25% on trucks. Most parts and components are subject to tariffs between 2% and 5% in the UK, and tariffs ranging from 0% to 2% in the U.S.
14. SMMT believes that, under an ambitious UK-U.S. agreement, all automotive-related tariffs should be eliminated without exceptions, with appropriate tariff phase-out periods to allow the market to adjust.

Barriers to market access

15. The removal of non-tariff and behind the border barriers to trade is one of the UK automotive industry's key interests in future UK-U.S. trade negotiations. In this area, potential benefits for automotive companies in the U.S. and UK would be driven from the mutual recognition of existing equivalent standards, as well as from enhanced cooperation on regulations regarding next-generation vehicles.
16. With regard to existing regulations, the negotiating parties should explore how, and to what extent, the respective regulatory regimes and their outcomes can be considered equivalent, without sacrificing vehicle safety and environmental performance. Existing regulations delivering equivalent outcomes should be mutually recognized. Without prejudice to the outcome of negotiations on the future trading relationship between the UK and the EU, the industry looks favourably to restart and possibly expand discussions on candidate regulations for mutual recognition identified during TTIP negotiations.
17. Benefits from addressing automotive technical barriers to trade could be significant. A 2013 impact analysis on TTIP from the Centre for Economic Policy Research estimated that total per cent trade costs for motor vehicles when non-tariff barriers (NTBs) are taken into account are 21.3% in the U.S. The same report estimated that motor vehicle output could increase by as much as 7.3% should the parties agree to reduce NTBs by 75% in the sector.²
18. The mutual recognition of regulations is not only beneficial for companies which already export to the U.S., but also for SME's looking to trade abroad for the first time with reduced administrative or financial burdens. The removal of barriers to market access is a crucial step in opening up new commercial opportunities for the UK business community, as well as encouraging foreign direct investment (FDI).
19. For automotive, the shift to automated, connected and electric technologies offers even greater trade opportunities for UK manufacturers and suppliers. The sector would greatly benefit from enhanced coordination in the development of international regulations on connected and autonomous vehicles under the framework of the UNECE 1998 Agreement, to which both countries are contracting parties. This would avoid creating new regulatory barriers in the future with emerging technologies. Increased bilateral coordination on the development and implementation of future automotive regulations would also be beneficial. Facilitations to mutually recognise testing results for autonomous vehicles could significantly reduce costs to sell new generation vehicles in both markets.

² Centre for Economic Policy Research, "Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership (TTIP) Agreement between the European Union and the United States", London, March 2013.

20. However, in addressing existing and future technical barriers to trade, negotiators should be aware of the fundamental differences between the UK and the U.S.' regulatory regimes. Differences in terms of both the authority to regulate and compliance procedures, as well as specific safety standards have often proved insurmountable obstacles to develop global technical regulations.
21. In the UK, the vehicle's safety and environmental impact is regulated via the UNECE Regulations or by regulations adopted by the UK in line with EU regulations and directives. The main certification process for vehicles is the type approval process whereby a vehicle is evaluated for compliance by an independent authority – in the case of the UK, the Vehicle Certification Agency (VCA).
22. In the U.S., passenger vehicles must comply with applicable Federal Motor Vehicle Safety Standards (FMVSS). A vehicle model's compliance to each FMVSS standard is ensured by the automaker or Original Equipment Manufacturer through a process known as self-certification.
23. When exploring the possibility to reduce non-tariff or technical barriers with the U.S., the future agreement should not undermine the UK's existing commitments to align its safety, type approval or environmental standards with those of UNECE automotive conventions to which the UK is signatory. In addition, a future UK-U.S. agreement should not result in reduced access to the EU market or in hybrid UK-only regulations.

Customs facilitation measures

24. Customs procedures and issues related to border enforcement present additional costs (potentially in the millions per annum) and administrative burdens, for automotive companies. The costs and burdens are often realised in the need for additional staff resources and IT systems which are required to navigate customs systems and processes. Automotive SMEs are particularly affected by customs formalities.
25. A system of facilitated measures should be examined as part of a future agreement, focused on eliminating unnecessary controls and formalities, particularly for trusted traders. UK-U.S. negotiations should therefore prioritise the need to maintain the ease at which one can trade, as well as the cost of trade.
26. The mutual recognition of AEO (UK) status post-Brexit and the U.S. CTPAT program is an essential mechanism for maintaining cross-way trade.

Rules of Origin

27. Rules of origin should be set so that motor vehicle manufacturers on both sides of the Atlantic can wholly benefit from a future agreement. Preferential rules of origin should take into account and reflect the UK supplier base following its withdrawal from the EU.
28. When the UK was a member of the EU customs union, UK businesses exporting to preferential trading partners could account the value generated in other EU members' states to comply with strict origin requirements for finished vehicles. Such requirements often demand high regional value content levels to qualify for zero-tariff treatment.
29. Establishing current domestic content levels is especially difficult for automotive manufacturers, and essentially impossible for automotive suppliers, as businesses have been operating within the EU customs union and therefore benefited from the free movement of goods.
30. In order to ensure all UK manufacturers and suppliers can benefit from future tariff preferences when exporting to the U.S., the UK would need to negotiate workable rules of origin provisions, including significant facilitations such as averaging, extended cumulation, achievable regional

value thresholds for traditional and new generation vehicles, a larger use of change of tariff heading and tariff subheading rules of origin.

31. A future UK-U.S. treaty should allow both parties to use their preferred calculation methods to prove that goods qualify for a FTA. OEMs should be free to choose between the EU added value or the U.S. net cost method in both markets. This flexibility allows business to continue with already established and known calculation methods.
32. A conversion mechanism would subsequently need to be established to ensure the compatibility of both systems of rules. Once it has been ensured that no calculation leads to an overall superior result, equal market access condition can be assured.

Trade disputes

33. A future UK – U.S. trade agreement should take into account recent international trade tensions and provide as much certainty as possible that businesses will be protected and that the benefits of the future agreement will not be undermined by uncoordinated unilateral actions.
34. Without undermining the sovereign right of all WTO members to take actions to protect their national security, the UK and U.S. should explore solutions to enable long-term business planning for automotive operators on both sides of the Atlantic. Negotiators could build upon provisions agreed in the United States-Mexico-Canada Agreement (USMCA). Such provisions are missing from the recently concluded U.S.-Japan trade agreement and, as such, a similar deal would not provide the necessary level of certainty that additional tariffs will not be imposed on bilateral trade.
35. UK-U.S. negotiators should also agree that additional tariffs will not be raised whilst both countries are in the process of negotiating a future trading relationship, both as a sign of goodwill and as a commitment to liberalising trade.

Labour mobility

36. UK automotive would benefit from the inclusion in the future FTA of provisions to facilitate intra-corporate transferees, movement of service providers, professionals, business visitors for establishment purposes. A simplification of processes across all visa types would encourage the exchange of talents between the negotiating partners.
37. The UK and the U.S. should also explore the possibility to conclude reciprocal tax arrangements to facilitate labour mobility.

Small Volume Manufacturers (SVMs)

38. The future agreement should include provisions reducing regulatory barriers for small volume manufacturers (SVMs) and provide adequate support and flexibility for this industry segment. The U.S. market is the largest market for a number of UK SVMs. Typically, the U.S. accounts for around a quarter of their total production and 30% of export volumes, although for individual manufacturers the figures could be even higher. However, for many low volume manufacturers, notably the smaller operator, the U.S. market is unattainable, given the high cost of entry.

Small and medium-sized enterprises (SMEs)

39. This paper has already made references to the preferential requirements needed to ensure small and medium-sized enterprises maintain their ability to freely trade with the world. The role of automotive SME supply chain and low-volume and specialist companies to the UK economy should be taken into account when the UK negotiates a future trade deal.
40. In particular, solutions could be explored to reduce the financial burden for automotive SMEs that cannot afford to factor-in legal expenses linked to the self-certification process.

Other

41. Negotiators should consider reciprocal tax arrangements, recognising the different tax years in the UK and the U.S., hence tax support for businesses may be necessary.
42. In order to truly take advantage of the ability to freely trade with the world's markets after December 2020, a UK – U.S. Free Trade Agreement should not, in any way, constrain the UK's ability to negotiate and sign trade agreements with any third country.

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