Overview – Customs Priorities for UK Automotive

The automotive sector is a vital UK industry. 169,000 people are employed directly in automotive manufacturing and 814,000 in the wider sector.

The UK has the most productive automotive industry in the whole of Europe. Highly efficient, just-in-time manufacturing is essential in maintaining the sector’s international competitiveness and this relies upon the free and frictionless movement of goods between the UK and the EU.

Highly integrated automotive supply chains exist across the EU, providing economies of scale that benefit the EU27 and the UK. In 2017, nearly 80% of auto-related UK imports by value came from the EU, while 69% of the value of UK automotive parts exported were sent to the EU.

The single market and customs union create the conditions UK automotive needs to thrive. To avoid costly disruptions to vehicle manufacturers and their supply chains, and to safeguard the sector’s competitiveness, any alternative customs arrangements need to replicate exactly the seamless trading relationship that UK automotive currently enjoys with its largest market. The sector believes that continuing customs union membership is essential to achieving this ambition.

How the customs union supports frictionless trade

Customs union membership removes the need for extensive customs procedures when moving goods between the UK and the rest of the EU, while also allowing the UK to cumulate its content with the EU for the purposes of rules of origin.

If the UK leaves the customs union and single market, a number of significant new and costly administrative burdens would be placed on British-based companies that trade with the EU. Specifically, should the UK and the EU no longer have a customs union arrangement, businesses exporting to EU27 countries would need to submit information about the proven origin of the product, the destination country, relevant commodity codes, Customs Procedure Codes, product value, a unique consignment number, as well as relevant safety and security information. This would represent a significant increase in bureaucracy, and undermine the competitiveness of UK automotive. Compliance with these new requirements would be particularly challenging for SMEs that make up over 90% of the automotive supply chain.

AUTOMOTIVE PRIORITIES

- The free and frictionless movement of goods across the border with the EU must be maintained. This is critical to the international competitiveness of UK automotive.
- The only existing model that delivers the free movement of goods upon which UK automotive competitiveness relies is customs union and single market membership.
- Any customs model that fails to replicate the benefits of UK automotive’s current trading relationship with the EU is likely to create delays, disrupt highly efficient “just-in-time” manufacturing and undermine competitiveness.

All infographics reference to ‘one day’ in automotive and were estimated based on information from: UK vehicle and engine brands; a five day working week; 2016 data from SMMT datasets and HMRC trade statistics; 1,100 EU trucks delivered to UK car and engine plants per day; and components worth £35 million delivered just in time from EU per day.
Government Proposals - An Assessment

1. A new customs partnership between the UK and EU (NCP)

Government is considering developing a new customs partnership with the EU that would see the UK mirror the EU’s customs approach in relation to imports from non-EU member states. Businesses would always be required to pay a higher tariff in the State where the goods arrive from a third country. Companies would then have to seek a refund from the customs authority where their business is registered (for example, HMRC in the UK) if the tariff rate, in either the EU or UK is lower for the goods’ ultimate end destination compared with its point of entry.

This proposal is unsuitable for UK automotive for a number of reasons:

- It is contingent upon the development of sophisticated “track and trace” systems to verify the movement and origin of all goods that have crossed the border into the UK. No such system currently exists, nor do businesses have the level of supply chain transparency that would be required to support such a system. Should it not be possible to track the movement of all goods, checks will be required at the border to support this proposal;
- Businesses will be required to pay the higher tariff, irrespective of the trade agreements the UK may have reached, which will add cost and undermine competitiveness;
- The requirement to pay the higher tariff and then seek a refund will have a damaging effect on cash flow and business operations, with SMEs being most negatively affected;
- Compliance with the proposal is likely to require businesses to share sensitive information and data (including on pricing and contractual arrangements with suppliers) that would not be compatible with commercial sensitivities.

2. A highly streamlined customs arrangement (“maximum facilitation”)

Government is also considering developing a highly streamlined customs arrangement that seeks to implement a range of trade facilitation measures that would limit checks and delays at the border.

Critically, this proposal would not eliminate the need to submit declarations and check goods at the border and would result in delays that would damage UK automotive’s productivity and undermine competitiveness. The proposals would also result in increased administrative burdens including the need to provide detailed declarations and prove compliance with rules of origin should they apply.

Neither option currently being considered by government is supported by UK automotive. The sector believes that both will increase costs, take time to implement and could have a damaging impact on highly efficient, just-in-time manufacturing processes and integrated supply chains. Ultimately, both proposals are likely to undermine the sector’s competitiveness.

International Models – An Assessment

1. US/Canada border

The US and Canada have a hard border with fixed infrastructure. The border is over 5,500 miles long and contains 119 vehicular land entry points. There are significant administrative, time and cost burdens associated with moving goods across the border, with a significant amount of pre-approved paperwork required to avoid extensive delay. Replicating the US/Canada model at the UK’s border with the EU would create considerable new complexities, costs and administrative burdens, and would still require border checks that would create delays and undermine just-in-time manufacturing and competitiveness.

2. Norway/EU and Switzerland/EU borders

Neither Norway nor Switzerland have been able to eliminate the need for physical infrastructure or checks at the border with the EU. Neither enjoy the free movement of goods despite having agreements with the EU on, for example, simplified procedures eliminating the need for entry summary declarations, and neither model would be suitable for UK automotive because of the border delays that would result.
SUMMARY OF ALTERNATIVE CUSTOMS MODELS

All proposed and existing models will:

- Create new friction and delays that would have a damaging effect on UK automotive competitiveness;
- Create new costs and cash flow restrictions for business through the introduction of new and potentially lengthy administrative requirements;
- Rely on border infrastructure or undeveloped new technologies.

Automotive key facts – every day in the UK

- 1,100 trucks from the EU deliver components worth £35m to UK car and engine plants
- 5,100 cars and 5,700 engines are exported worldwide
- 1,300 cars are delivered to UK dealers and 4,700 engines delivered to UK factories
- 80% of auto imports by value come from the EU, while 69% of UK auto exports by value are sent to the EU
- UK automotive relies on just 6 major ports for the export of 95% of completed vehicles

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