

## UK TARIFFS ON EU IMPORTS

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#### Background

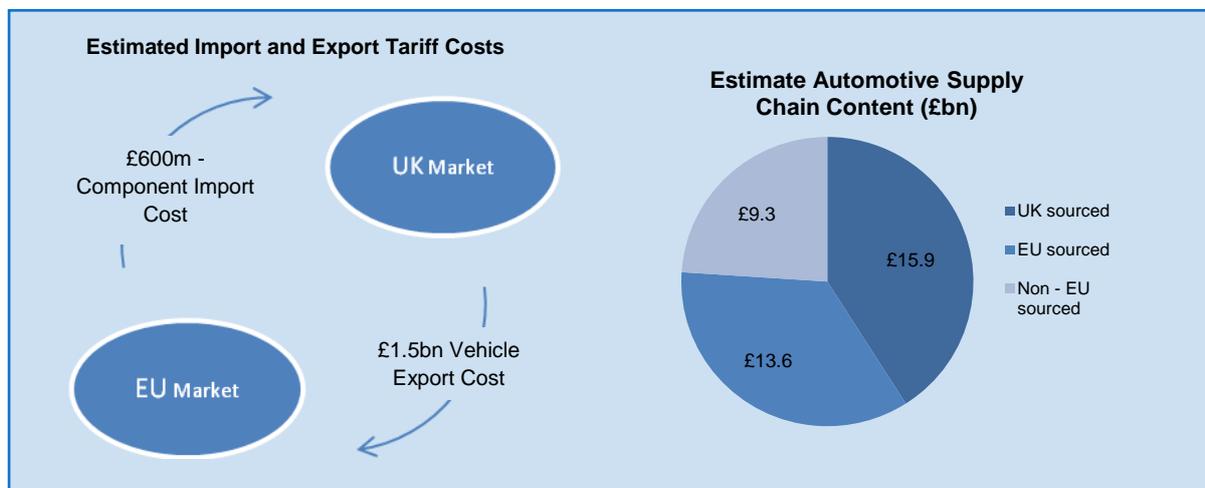
The UK automotive sector currently has tariff free access to its EU based supply chain. In a highly integrated tight margin industry this is Invaluable. Components imported into the UK from outside the EU currently attract an average import tariff of 4.5%. This is a major reason why cars built in the UK source the majority of their supply chain from either the UK or the EU. The Society of Motor Manufacturers and Traders (SMMT) has estimated that today 41% of the content of cars built in the UK is sourced from the UK, with between an additional 20% and 50% sourced from elsewhere in the EU. Amongst some automotive companies however this proportion is even higher.

**20% to 50%**

of the UK auto supply chain is sourced from elsewhere in the EU.

#### Impact of the UK's withdrawal from the EU

Outside of the EU, if an average 4.5% tariff rate on components is assumed, based on KPMG and Automotive Council analysis, in 2014 and 2015, we estimate that the imposition of tariffs could cost the sector between £350m and £875m per year for the import of components, reducing the UK's competitiveness and increasing costs for consumers. If lower tier companies supply chains are also taken into account this figure is likely to be higher and even this is fraction of the several billion pound tariff cost that that will arise from the import of whole vehicles to the UK.



The integrated nature of automotive supply chains means that the introduction of import tariffs could make current manufacturing models unviable. For example, components currently produced within the EU27 exported to the UK for assembly and integration into vehicles (which in turn are exported back into the EU27), would see a competitive advantage from completing the whole manufacturing process within the EU27.

The automotive sector is working with Government to strengthen the domestic supply chain. In 2015 we identified a £4bn per annum re-shoring opportunity which we continue to work on. If industry met these targets the sector however would still face increased tariff costs on components of between £300m and £700m per year.

We cannot envisage a situation where it would be possible for the UK industry to function without a significant proportion of automotive parts being sourced from elsewhere in the EU and it is unlikely

that more than 60% of components can be sourced from the UK. The ongoing uncertainty of the UK's relationship with the EU is likely to make this target harder rather than easier to achieve.

While the UK could unilaterally decide not to impose import duties on automotive components, it is the understanding of the Automotive Council that this could be done solely for the EU, without a comprehensive Free Trade Agreement being in place and therefore this policy change would come with a significant cost to the exchequer.

The automotive sector is strongly in favour of increasing our domestic supply chain; however the regional nature of the automotive industry means that for the UK to be successful our supply chains will need to remain integrated within the EU. Driving up supply chain costs through import tariffs is unlikely to significantly increase the size of the UK's supply chain; rather it is more likely that the size of the UK automotive sector as a whole would shrink as European plants gained a competitive advantage of UK plants.

### **UK Automotive Priorities**

- Maintaining a preferential trading relationship with the EU free from tariffs on either side of the UK border
- Ensuring there are transitional arrangements in place to avoid any temporary levying of tariffs by the UK government on EU imports.

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