

**Written evidence submitted by the Society of Motor Manufacturers and Traders (SMMT)
(NZT0019)**

Introduction

1. 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 the industry to government, stakeholders and the media.
2. The automotive industry is a vital part of the UK economy and integral to supporting the delivery of the agendas for levelling up, net zero, advancing global Britain, and the plan for growth. Automotive-related manufacturing contributes £78 billion turnover and £16 billion value added to the UK economy, and typically invest around £3 billion each year in Research and Development (R&D). With more than 208,000 people employed in automotive manufacturing and some 800,000 in total across the wider automotive industry, we account for 10% of total UK goods exports, generating £94 billion of trade.
3. More than 25 manufacturers build over 70 models of vehicles in the UK, plus an array of specialist small volume manufacturers, supported by some 2,500 supply chain businesses and some of the world's most skilled engineers. Many of these jobs are outside London and the Southeast, with wages that are around 14% higher than the UK average. The automotive sector also supports jobs in other key sectors – including steel, chemicals, plastics and rubber, as well as more broadly in advertising, finance and logistics.
4. SMMT is responding to the Committee's Inquiry as automotive is a key driver of trade in the UK and integral to the UK meeting its net zero ambitions. SMMT sets out below our sector's response to the specific questions posed by the call for inputs on net zero and trade.

QUESTION 1.

How can trade help in the pursuit of net zero?

5. Global trade plays a crucial role in supporting the automotive sector's transition to a carbon-neutral future. With domestic manufacturers traditionally exporting 8 out of 10 passenger cars assembled in the UK and imported vehicles normally representing 9 out of 10 new car registrations, improving market access for UK-made vehicles in third countries and ensuring the UK remains an open market is essential to meet future decarbonisation targets.
6. International trade fuels growth in UK automotive production, boosting sales of both British-made and imported automotive products, and encouraging the transition to low-emission technologies by building economies of scale. This is particularly true for trade in Electrified Vehicles (EVs), including Battery Electric Vehicles (BEVs), Plug-in Hybrids (PHEVs), other Hybrid vehicles (HEVs) and hydrogen vehicles.
7. The whole industry is currently experiencing a significant expansion after a multiple-year decline in overall production and trade volumes. Trade in BEVs, PHEVs and HEVs has spearheaded sectoral growth, as the number of exported hybrid and fully electric passenger cars has steadily increased. After a minor decline in 2020 following the pandemic shock, by the end of 2021 exports of all types of UK EVs had already fully recovered. As EV outbound car shipments recorded an increase of 50% in 2023 compared with 2022 and over 60% compared with 2019 figures, it is increasingly clear that the future prosperity of the UK automotive sector depends on the industry's ability to capture EV market growth abroad.

8. Export opportunities enable further investment and growth in domestic production of EVs. UK manufacturers already offer a large range of electrified models to British consumers, with domestically produced hybrids representing a significant share of the UK market and an increasing number of BEVs in the pipeline. With regard to locally-produced purely electric vehicles, registrations of UK-built BEVs last year were 126.7% above 2019 volumes, but registrations peaked in 2022 and might experience temporary further fluctuations in the near future. For example, a potential short-term decrease in domestic sales of UK-BEVs should not be misinterpreted, as it reflects the decision to cease production of older models while new models are introduced by multiple investors or production facilities are adapted or upgraded for zero emission manufacturing. Announced investment in local production of BEVs is critical for the sector and to deliver on the UK's net zero ambitions. In this context, commercially meaningful export opportunities and competitive domestic business environment remain essential elements to make the UK an attractive investment destination for the production of BEVs destined to domestic and overseas markets.
9. In parallel, with more than 96% of new BEV car registrations being of foreign origin last year, imports are indispensable to achieve the UK government's commitment to a 100% reduction of greenhouse gas emissions by 2050 compared with 1990 levels.
10. Trade policy tools can be supportive in fostering the transition to decarbonisation and reaching Net-Zero objectives. In particular, Free Trade Agreements (FTAs) can help to reduce tariff barriers on imports and exports of EVs, batteries and related technologies. Lower tariffs in trade with preferential trading partners can provide benefits to consumers, commercially meaningful opportunities for EV imports and exports and greater integration of EV supply chains.
11. International trade is also key to building a reliable, resilient and robust supply chain for EVs, batteries and battery parts. Extraction of critical raw materials remains concentrated in a handful of countries, such as Australia, Chile, Congo and Indonesia, while China dominates critical minerals refining. In this context, trade diplomacy can play a role. Soft instruments such as investment partnerships and memoranda of understanding can facilitate business to business engagement and the mobilisation of capital for the exploration of prospective extraction hubs and the development of extraction capabilities in existing and prospective resource-rich countries. It could also lead to collaboration to modernise processing technologies and further integrate battery supply chains with other major EV markets and production hubs.
12. Conversely, if trade policy is not aligned with domestic industrial and net zero policy, it has the potential to limit the delivery and implementation of a successful net zero transition. Trade policy must consider, and where appropriate be specifically calibrated to, our shared climate ambitions, industrial capacity and capability – today and in the future – and the UK's overall international competitiveness to ensure trade positively supports the pursuit of net zero. Trade and sustainability policy has never been more closely associated, evidenced by the rise of measures including emissions, carbon borders, environmental reporting. These have broad and significant ramifications for businesses operating in the UK and with key trading partners and markets (e.g strategic investment, business compliance & administration, regulatory frameworks).
13. In sum, an open trade environment and international trade cooperation are pivotal to step up production of low and zero emission vehicles, lower manufacturing costs of less polluting vehicles, strengthen the EV supply chain, increase competition in the race to a zero-emission future and broaden the offer of domestic and imported low-emission vehicles for British

consumers. An inward-looking trade policy would ultimately undermine the UK's Net Zero objectives, with businesses unlikely to meet increasing zero-emission vehicle sales targets mandate by the recently introduced under the Vehicle Emissions Trading Schemes Order 2023.

QUESTION 2

Is the UK's trade policy consistent with its goals for net zero?

14. To date, the UK's trade diplomacy has been successful in avoiding the application of tariffs in trade of EVs between the UK and EU. The EU is by far the largest supplier of EVs to the UK and the biggest export market for UK-assembled vehicles of all types. Last year, BEVs of EU origin represented more than 50% of all new BEV registrations in the UK, with over 160,000 EU BEVs registered in 2023, a volume uplift of 27.4% compared with the previous year. The SMMT does not hold data on exports to specific markets by fuel type, but according to HMRC data, the value of BEV exports from the UK to the EU almost doubled between 2022 and 2023, from a little less than £1.1 billion to over £2.1 billion. Exports of UK BEVs to non-EU destinations in 2023 were worth £832 million in total.
15. This success story was underpinned by the conclusion of the Trade and Cooperation (TCA) between the EU and the UK and its implementation following the end of the transition period. Like any other FTA, the TCA offers preferential tariff treatment only to products that satisfy complex origin rules. At the time of negotiations, the parties acknowledged that the regional supply chain for the production of batteries and EVs in was not sufficiently developed to meet most common precedents. Accordingly, the TCA set exceptionally simple origin requirements on an interim basis for batteries, battery parts and all types of EVs, including BEVs, PHEVs and HEVs.
16. However, the phase-in of unworkable origin requirements for batteries scheduled for January 2024 risked derailing regional EV trade. The SMMT estimated that the shift to new rules would have resulted in a potential tariff bill of £4.3 billion between 2024 and the end of 2026. The biggest share of additional tariffs would have affected imports of EU-built EVs, but UK's EVs manufacturers competitiveness would have been severely damaged. While additional tariff liabilities would have been particularly hefty for producers and consumers, the cost of backtracking from tariff-free trade of EVs on the credibility of the respective environmental agendas could have been much higher, as bilateral tariff-free trade in ICE vehicles would have been effectively incentivised to the detriment of trade in less polluting and zero-emission vehicles.
17. At the end of last year, the UK and the EU successfully concluded an agreement within the existing TCA framework to extend the application of facilitative origin requirements for EVs, batteries and battery parts for the next three years. The shared decision to maintain tariff-free trade in EVs with the industry's largest trading partner will ensure consumers retain the widest and most affordable choice of models, at a time when we need all drivers to make the switch. The UK and EU have listened to the sector and acted to safeguard the competitiveness of the respective automotive industries and give the Anglo-European battery industry the critical time it needs to catch up. The measure will help cut carbon, support growth and jobs, and support the decarbonisation of road transport, an essential element to reaching the UK and EU net zero ambitions.
18. The three-year extension of facilitative origin rules under the TCA resulted in an identical measure being agreed under the UK-Turkey FTA, further reducing potential tariff risks on trade of EVs between the UK and Turkey, one of the industry's largest trading partners beyond the EU, the US, China and Japan.

19. The UK has also concluded and implemented two FTAs with new trading partners, Australia and New Zealand. Both agreements deliver on the industry request to set workable origin requirements for EVs, batteries and related parts. The elimination of a 5% tariff on outbound shipments of qualified vehicles supported the sector's expansion in the market. SMMT data shows export volumes of all new cars, irrespective of powertrain, to Australia have increased 62% last year, reaching more than 18,300 exported units in 2023, a major uplift considering the already significant starting base of more than 11,300 passenger cars exported in 2022.
20. According to HMRC data, while exports of traditional combustion engine vehicles covered 54% of all exports to Australia in 2023, the export values of HEVs, PHEVs and BEVs increased by 93% year-on-year, contributing together with traditional internal combustion engine (ICE) vehicles to almost doubling the export value of passenger cars from £376 million in 2022 to £747 million last year. Providing commercially meaningful export opportunities for UK-based producers of EVs is crucial to support further investment in zero emission technologies and build economies of scale, with positive spill overs for British consumers and the domestic manufacturers' ability to service the UK market with less polluting vehicles.

QUESTION 3

How can the UK's trade policy further help with its goals for net zero?

21. While the UK government has successfully tackled some of the most pressing trade policy issues on the path towards decarbonisation of road transport, significant challenges remain to be addressed.
22. Ensuring tariff-free trade of low and zero-emission vehicles between the UK and the EU remains the single biggest priority. While a three-year extension of rules of origin for EVs and related technologies was vital to safeguard regional EV trade, much tougher origin requirements will be phased-in in January 2027. With the parties having agreed that no further changes to the relevant origin rules can be approved before 2032, continued tariff-free trade of EVs will depend on the localisation of the most valuable battery components and refined materials in the European region. Localisation cannot be limited to the assembly of accumulators or cells in the territory of the party. To avoid tariffs and remain globally competitive, UK and EU vehicle manufacturers will need to be able to source in sufficient quantity and originating cathodes, anodes, their related active materials and other parts such as separators and electrolytes.
23. While the regionalisation of e-mobility supply chains will largely depend on the ability of battery producers to scale-up investment and manufacturing strategies in both the UK and the EU, trade policy should also play a role. In particular, the parties are yet to agree on a common definition of active cathode materials (ACM) under the terms of the TCA. Given that ACM is the most valuable component in a battery value-chain and finished BEVs and PHEVs will need to incorporate an originating battery from January 2027 to avoid tariffs when traded across the Channel, legal clarity on ACM cannot be further postponed. A shared definition is crucial to ensure planned investment will deliver ACM that will be deemed originating into the EU/UK region and reduce future tariff liability risks.
24. Beyond trade with our largest EV supplier and biggest automotive export market, ensuring that FTAs with other partners are fit for trade in EVs is crucial to reduce costs for manufacturers and consumers through further tariff slashing and by building economies of scale. While the UK has successfully agreed continuity agreements with more than sixty trading partners following the UK's exit from the EU, these deals did not differentiate rules of origin applicable to ICE vehicles

with those applicable to EVs. Even when EU content can be accounted for to meet these origin requirements, this facilitation is not enough to ensure EVs can qualify, either because rules on EVs are simply too demanding, or because European-assembled battery packs are unlikely to meet the FTAs origin rules for batteries.

25. The negotiation of new agreements with India, the Gulf Cooperation Council and the renegotiation of continuity deals with automotive hotbeds such as South Korea and Mexico offer a major opportunity to future-proof these FTAs and ensure EVs manufactured in the UK and in the territories of these trading partners can be traded under preference. In this regard, the suspension of renegotiations with Canada and the roll-back of previous market access levels due to the expiry of an EU cumulation clause sets a negative precedent that should be redressed as quickly as possible.
26. The upcoming UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) can also provide some advantages on imports and exports of EVs. In particular, EV manufacturers in the UK could benefit from new opportunities thanks to facilitative rules in trade of passenger cars with Malaysia – including EVs. Import and export of EVs within CPTPP could also benefit from slightly less demanding rules of origin for batteries compared with those applicable under continuity agreements with seven CPTPP parties. In this regard, UK trade diplomacy should ensure that all other CPTPP parties will ratify the UK's protocol of accession in the near future.
27. Beyond tariff barriers, trade in EVs can be encouraged by enhanced cooperation in the development of global technical regulations under the aegis of the United Nations and, where possible, the mutual recognition of equivalent regulatory frameworks. These would reduce costs related to the homologation and marketing of EVs and batteries in the UK and in the territory of likeminded trading partners. However, assessing the compatibility of EV regulations between the UK and other countries requires a significant effort to verify whether the respective regulations deliver similar or identical safety and environmental standards. Such assessment presents major challenges when comparing significantly different models.
28. Government should ensure that FTA negotiations include labour mobility chapters which improve the facilitation, flexibility and duration of temporary entry rights for business visits, graduate trainees, managers, specialists, investors and intra-company transferees. This will enable the sharing of skills and workforce capabilities relating to battery manufacturing and design development in connected and automated vehicles – skill sets which are in high-demand, but low supply in the UK at present.
29. Moving forward, it will also be important to ensure we are capturing automotive trade data for new technologies, notably batteries (especially traction batteries), but also anodes, cathodes, electrolytes, binders, cells, modules and battery casings. Measuring, monitoring and reporting such information will help ensure a good understanding of automotive trade in this transitional landscape as well as growing our understanding and analysis of the UK's current and future critical supply chains and overall economic resilience.
30. Finally, strong and complementary trade policy can ensure the UK is an attractive place to invest, particularly for UK export and industrial strengths such as automotive manufacturing. The UK can retain its role as a base of operations for global trade and champion of free and fair trade. If the UK can harness the cumulative benefits of free trade agreements, market access, international partnerships alongside industrial, regulatory and net zero strategies this will enable

the UK to be a world leader in green technologies – with all the benefits of economic growth, innovation and industrial decarbonisation for UK plc and British consumers alike.

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