

SMMT – Supplementary Written evidence FUU0020

SMMT response to House of Lords Goods Sub-Committee Question:

“The TCA establishes the Trade Specialised Committee on Technical Barriers to Trade and encourages both parties to minimise regulatory divergence and promote the use of international standards. Are these measures likely to have the desired long-term effect of minimising divergence? What could the Government do unilaterally to minimise negative effects of divergence?”

1. UK automotive is a highly competitive, export-led industry, with complex supply chains that are fully integrated with the rest of the European Union (EU). Regulatory alignment, and the consequent removal of technical barriers to trade (TBTs), has played an essential role in promoting the industry’s international competitiveness.
2. The UK-EU Trade and Cooperation Agreement (TCA) includes a general chapter on Technical Barriers to Trade, as well as a specific Annex on Motor Vehicles and Equipment and Parts. The inclusion of an automotive Annex was a welcomed achievement, recognising the highly-regulated and highly-integrated nature of the sector which requires specific and exceptional provisions.
3. The automotive industry benefits from a broad international regulatory framework under the aegis of the UN. As agreed in the TCA, both Parties will continue to accept, in their respective markets, products that are covered by a valid UN type-approval certificate, including a UN International Whole Vehicle Type Approval (IWVTA). This is especially important for type approval of systems, components and separate technical units. In these areas, this should minimise potential future regulatory divergence.
4. However, the Annex does not mutually recognise domestic whole vehicle type approvals or approvals that are addressed by regulations outside of the UN framework. For whole vehicles, an IWVTA currently only covers around 50 of the nearly 160 UNECE regulations which currently exist.
5. An IWVTA can be used as a building block for full whole vehicle type approval but would not be sufficient in its own right in either the UK or the EU. Vehicles will need an EU Whole Vehicle Type Approval for the EU market, while the UK is currently developing its own Whole Vehicle Type Approval scheme. Both schemes include UNECE regulations where appropriate, but for topics such as emissions, the UNECE regulations are not yet at a level which satisfies the requirements of

the EU or the UK. Duplication, additional costs and productivity losses will ultimately arise in our sector which operates on tight margins.

6. The Annex also does not mutually recognise respective technical services, which would have been instrumental for simplifying the type approval activities for manufacturers and would have eased the process of mutual acceptance of conformity assessment results.
7. As such, the UK is no longer part of the EU Type Approval frameworks and a partial Mutual Recognition Agreement (MRA) exists only for those regulations which fall under UNECE jurisdiction, meaning there is a real risk of potential future regulatory divergence unless the UK and the EU make a conscious effort to align their respective national regulatory frameworks.

Estimated costs of regulatory divergence

8. Whilst a full assessment of the costs of the outcome of the negotiations has yet to be conducted, the introduction of two separate regulatory frameworks in the UK and the EU will increase the cost of doing business and potentially limit market access.
9. Industry already knows costs will arise as a result of additional bureaucracy and testing needed in relation to type approval and in the absence of a more comprehensive MRA with the EU.
10. In May 2020, SMMT estimated additional costs stemming from having two identical national type approval frameworks that are not mutually recognised under the UK-EU trade agreement. The costs of duplicate certification and associated conformity of production procedures for each individual model should be less than £10,000, but across a large manufacturer's range this would still be significant. Equally, there would be additional cost for the manufacturer due to the resource required to manage the certification process for the UK. This would include the need for additional personnel hours, potentially adding up to an increase in actual headcount being required in many organisations.
11. The requirement for duplicate testing, or at least witnessing, by the UK type approval authority of the EU testing and vice versa will also add cost. In a scenario where respective type approval frameworks will continue to remain aligned but in the absence of a comprehensive MRA, it is estimated this would be between £30,000 and £100,000 for a single type consisting of additional testing costs, additional travel to other parts of the world for witnessing and / or additional movements of vehicles to different test facilities. As important as, if not more so, the purely financial impact of duplication is the time taken to gain

approval. If that time is increased, this is likely to have significant implications in terms of model launches or gaps in sales.

12. Where full duplication of testing is required, the cost of additional vehicles / parts and components could easily add an additional £50,000 to £100,000 to the cost of approvals for a volume model and upwards of £500,000 in the case of a high-performance model.
13. Where approval is necessary for a completely new model type, the costs of prototype vehicles / components will need to be included. For vehicles, this could extend to £250,000 - £500,000 for a volume model and into the millions for high performance manufacturers.
14. With no mutual recognition of the type approval framework comes the need for duplicate conformity of production and in-service conformity testing. This, too, will add to the increase in cost. For in-service conformity checks, there is also a potential difficulty with having a sufficient number of vehicles in the UK market alone to be able to perform checks on, which could make this more difficult for the approval authority.
15. Assuming the UK Whole Vehicle Type Approval will initially mirror the EU's scheme, additional costs would be limited to the duplication of certificates and testing. However, the UK-EU TCA deal does not shield the UK automotive sector from future regulatory divergence, whether occurring as a chosen result of a government strategy or as a side-effect of one.
16. As stated during the oral evidence session, there is a risk that costs would increase should the EU and UK develop divergent regulations in the future. Should the UK choose to utilise its new regulatory sovereignty to diverge from technical standards, there is the risk that this could create UK-specific and EU-specific design of vehicles, which means companies will have to develop different models meeting different regulatory requirements to serve both markets separately. This would therefore create a worst-case scenario of additional development costs and could limit the consumer offering in the UK market.
17. It is not possible to calculate the cost, which would be determined by the level of change from either the existing EU requirements, or those which we may see created in the future, but would almost certainly be in the millions of pounds.

Role of the Working Group on Motor Vehicles and Parts

18. The dedicated Working Group on Motor Vehicles and Parts, established in the Annex and sitting under the TBT committee, is welcomed and gives hope that the EU and UK will continue to co-operate. Automotive also recognises the positive step that specialist expertise can be engaged through the Working Group should TBT issues arise. SMMT hopes this will provide a useful voice for promoting the use of international standards and avoiding, either active or accidental, future divergence in automotive regulations.
19. However, the Working Group does not go far enough, nor is it binding – this is a crucial concern of the sector. In the absence of any binding commitment, close co-operation will be required to avoid future TBTs emerging either as a result of deliberate action or inadvertently through delays in process.
20. Given the technological transformation being undertaken by our sector and the proliferation of automotive technical standards, regular, official meetings of the Working Group would be essential to keep apace of the changes.

Role of Government to counter the impact of regulatory divergence

21. It is the view of automotive that harmonised regulations should be agreed wherever possible to meet the needs of a global automotive industry.
22. On the way forward, the focus is on the Motor Vehicles Working Group set by the deal, which government should champion to ensure future cooperation. While the group is yet to be established it is important government liaises with industry to ensure expectations and expertise are appropriate and understood.