

Society of Motor Manufacturers and Traders (SMMT) – Written Evidence (CPT0015)

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. The automotive industry is a vital part of the UK economy accounting for £78.9 billion turnover, £15.3 billion value added and invests more than £3 billion each year in automotive R&D. With some 180,000 people employed directly in manufacturing and 864,000 across the wider automotive industry, it accounts for 13% of total UK exports with over 150 countries importing UK produced vehicles, generating more than £100 billion of trade. More than 30 manufacturers build more than 70 models of vehicle in the UK supported by over 2,500 component providers and some of the world's most skilled engineers.

Overview

2. The decision by government to ascend the UK to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) is of significant interest and importance to SMMT and the UK automotive industry.
3. UK automotive recognises that progressing trade talks with CPTPP nations has been a prioritised agenda of the UK government over the course of 2020 and precedes the ambition to see the UK's accession to the trade bloc. SMMT has been involved in feeding into government the sector's position regarding ongoing negotiations with the US, Australia and New Zealand, as well as already established arrangements with Japan, Canada and Mexico.
4. The International Trade Secretary has pointed to a reduction in tariffs on cars as a key reason for the UK joining CPTPP, as well as potential benefits associated with CPTPP standards and regulations in services, robotics, data and digital industries.
5. The automotive sector is committed to free and fair trade and as a high-value exporting sector, is open to potential growth opportunities through enhanced trading relationships with key markets and facilitating the opening up of new markets. However, it is important to ensure that compliance with CPTPP regulations,

standards or tariff schedules, does not create either inadvertent or intended adverse impacts on the UK automotive sector.

6. Whilst UK automotive welcomes the opportunity to remove unnecessary barriers to trading with some of our most important partners, such as Japan, Canada and Mexico, as well as with some of the world's fastest growing nations, as with Australia, Vietnam and Malaysia, any optimism should take into consideration the unique circumstances that have led to the UK requesting accession – the UK's departure from the EU single market, the negotiation of a UK-EU Trade and Cooperation Agreement, the conclusion of continuity deals with over 60 trading partners, and the limited impact CPTPP membership is expected to have on the UK economy.
7. Whilst not the UK's largest trading region, CPTPP nations still accounted for a significant 8.4% of all UK exports in 2019, equivalent to the UK's trading relationship with Germany. The UK enjoys a significant trade surplus in trade of passenger cars with CPTPP countries. In 2019, UK car exports to CPTPP countries were worth just shy of £3.2bn, while imports of passenger vehicles amounted to just over £1.5bn over the same period. Car exports to CPTPP countries represented 9.1% of total UK car exports (HMRC data).
8. Of the existing 11 CPTPP countries, the UK already has in place bilateral deals with Japan, Canada, Mexico, Singapore, Chile, Peru and Vietnam and is in the process of negotiating Free Trade Agreements (FTA's) with Australia and New Zealand. Brunei and Malaysia are the only two markets where bilateral talks have not progressed.
9. Given the already existing bilateral trade deals, the removal of tariffs on trade with Australia, Malaysia and, potentially, Vietnam should be a priority of the UK government, as this will provide a potential to increase trade, albeit marginally, for UK automotive. However, with Malaysia yet to ratify its membership and unlikely to do so before the UK's commences negotiations, an increase in exports to this market should be appropriately considered.
10. Automotive recognises that the CPTPP legal text already exists and accession to the trading bloc will not follow the path of usual bilateral trade negotiations. Nevertheless, any new trading terms or conditions must work for UK businesses and the automotive sector, which heavily relies on the ability to export. Whilst opportunities to diverge from the text by negotiating carve-out's or side letters may be measures UK government wishes to avoid, negotiating changes

after the UK has already signed up to unworkable rules would be a worst-case scenario for this sector.

Automotive Position

Tariffs

11. In talks throughout 2020, both the UK government and CPTPP representatives have pointed to tariff liberalisation as a key benefit of the UK joining the trading bloc. In negotiating the removal of automotive tariff barriers, the UK must ensure that the decision to accede to CPTPP does not inadvertently undermine the benefits of existing continuity trade deals that have already been negotiated with many CPTPP members.
12. For finished vehicles in 2019, CPTPP membership includes three of the top ten destinations of UK car exports: Australia, Japan and Canada. However, of the three nations, only a tariff reduction in Australia would certainly be beneficial for UK manufacturers and exporters.
13. Japan, the fourth biggest export market for UK cars in 2019, already applies a 0% MFN tariff on automotive products. Whilst the UK currently still applies residual preferential tariffs on imports of Japanese vehicles into the UK, automotive does not advocate for immediate tariff liberalisation. The recently concluded UK-Japan FTA agreed to maintain the progressive liberalisation of tariffs at pace with the agreed timeframe of the EU-Japan EPA phase-out schedule. It is essential that this does not become a negotiable factor in the UK's accession to CPTPP membership. Negotiators should take into account the potential impact of tariff liberalisation on the UK economy, UK automotive manufacturing and business planning certainty. Maintaining the already agreed schedule will ensure consistency for both UK-based and Japanese-based businesses.
14. Meanwhile, Canada represents the fifth largest export market for UK-assembled vehicles with 23,000 cars shipped in 2019 (SMMT data). Canada has a 6.1% MFN tariff on cars; however, Canada is already opening its car market to UK vehicles thanks to the UK-Canada continuity deal, which itself is currently being re-negotiated over a three-year period. Tariffs are progressively being phased-out and bilateral trade of passenger cars should be fully liberalised by January 1st 2024. In the press release announcing its formal request to join CPTPP, government pointed to the possible removal of tariffs on automotive products from as early as 2022. Such a decision can

only be made following discussion with the automotive industry and having considered the impact of how increased competition may affect UK businesses.

15. In terms of export volumes, Australia was the sixth biggest export destination of UK passenger vehicles in 2019, accounting for 1.9% of exported units (SMMT data). Australia, which is predicted to become the 10th fastest growing market for the sale of automotive vehicles over the period 2019-2025 (LMC), currently charges a 5% import tariff on finished vehicles. The elimination of this tariff would have some benefits for UK exporters, but the potential for significant increases in new trade should take into account the costs of long haulage between both nations.
16. For the remaining CPTPP countries, passenger cars are subject to the following MFN import tariffs: Brunei 0%, Chile 6%, Malaysia 30%, New Zealand 0%, Peru 6%, Singapore 0%, Vietnam 70%. Existing continuity deals allow tariff-free treatment on exports to Chile, while Peru has maintained some minor tariffs under preference and the Vietnamese market is opening as a result of the UK-Vietnam FTA deal, which allows for the progressive lowering of tariff and non-tariff barriers in line with the EU-Vietnam FTA tariff schedule.
17. For the smaller markets, the marginal value of UK's accession to the CPTPP would be to eliminate a 30% tariff in Malaysia and potentially accelerate the elimination of a 70% tariff in Vietnam. However, Malaysia is a minor export destination for UK passenger cars and it has negotiated a long thirteen years phase-out period for most new cars. According to HMRC data, in 2019 the total value of car exports to Malaysia was £132m.
18. With regard to Vietnam, following the replication of the EU-Vietnam FTA agreed in 2019, the UK is following the progressive removal of tariffs which should see full liberalisation on UK car exports by 2030. Under CPTPP, Vietnam has negotiated a thirteen years phase-out period for most new cars. According to HMRC data, export of UK cars to Vietnam in 2019 was worth £24.3m. High tariff rates in Malaysia and Vietnam contribute to limited exports of UK automotive products to these markets, so current trade flow data do not accurately reflect how trade would change if and when these tariffs are removed.
19. It should also be noted that the UK experiences a significant trade deficit in trade of parts and components with CPTPP countries. In 2019, UK suppliers' exports to these markets were worth £240.1m, while UK automotive operators imported £585.5 m in

parts and components from CPTPP countries (HMRC data). The vast majority of imports originated from Japan and Mexico.

20. For most common car parts and components (HS code 8708) MFN tariffs of CPTPP countries are the following: Australia 5%; Brunei 20%; Canada 6%-8.5%; Chile 6%; Japan 0%; Malaysia 25%-30%; Mexico 0%-5%; New Zealand 5%-10%; Peru 0%; Singapore 0%; Vietnam 10%-20%.

21. While existing continuity deals allow UK exporters to trade tariff-free for the majority of markets, the reduction of tariffs on parts and components in Australia, New Zealand, Malaysia and Vietnam could help UK automotive suppliers export more to these markets.

Prioritising Bilateral Trade Renegotiations

22. CPTPP accession should not undermine upcoming bilateral renegotiation talks with both Mexico and Canada. Rushed CPTPP accession before completing bilateral trading deals risks disincentivising bilateral negotiations if parties like Mexico, Canada, Australia and New Zealand are granted better market access through CPTPP than through new or upgraded bilateral deals.

23. Mexico is a highly important market for the export of motor vehicles, parts and engines. Avoiding reverting back to WTO tariffs after 20 years of preferential trade by agreeing a continuity deal at the end of 2020 was a key priority for the automotive sector. The priority now, must be agreeing or improving upon the terms of the upgraded EU-Mexico Association Agreement during renegotiations of a bilateral trade deal. The modernised EU-Mexico deal, agreed in 2020, includes more liberal rules of origin and an automotive annex addressing sectoral regulatory issues, ensuring a larger number of EU automotive products will benefit from tariff-free treatment and lower non-tariff barriers.

24. In the absence of agreeing favourable trading terms which match or improve upon the terms of the upgraded EU-Mexico agreement, EU-based competitors are likely to benefit from a significant competitive advantage. In particular, the most impacted UK exporters would be manufacturers of luxury and premium vehicles. In addition, Mexico is also an important export destination for the sale of engines, valued at £109m in 2019 – the fourth biggest export destination after the EU, Turkey and the US.

25. In the case of Canada, the UK currently benefits from a continuity deal in place with its fifth biggest export market. Under the terms of the UK-Canada continuity deal, extended cumulation of EU originating content and value added is accepted and, similar to agreements with Korea and South Africa, cumulation of EU content will be allowed for at least three years.
26. As the UK and Canada renegotiate its trading terms, consideration will be given as to whether these cumulation provisions should be extended. The UK enjoys a significant trade surplus of more than £737 million in trade with Canada, which is an especially important export destination for engines, parts and components. CPTPP accession must not contradict UK government negotiation objectives for UK-Canada renegotiations, which will likely continue after the conclusion of CPTPP talks.
27. One area to consider is whether the origin quota applicable to imports of Canadian passenger cars, currently set at 60,000 units and after which the required rules of origin content level rises to 50%, can be accorded to UK-assembled vehicles to support the growth of bilateral trade in finished vehicles.

Rules of Origin

28. Currently, CPTPP rules of origin for passenger cars, trucks, buses and commercial vehicles set two regional value content (RVC) thresholds in order to qualify for preferential treatment: 45% under the net cost method or 55% under the build-down method. The industry would benefit from the possibility to use various averaging methods provided by the deal to meet RVCs for finished vehicles.
29. Despite easements such as averaging, standard CPTPP RVCs for finished vehicles are likely to be unattainable for the vast majority of UK automotive operators if they will need to rely on UK-only content. In this regard, CPTPP allows full cumulation of content between all CPTPP members. Cumulating originating content and processing on non-originating materials from other CPTPP parties is a significant easement for UK-based manufacturers with international supply chains stretching to the CPTPP region and exporting to CPTPP members. However, UK-based manufacturers sourcing a significant proportion of parts from CPTPP countries are likely to export the majority of finished vehicles to the European markets.
30. For other vehicle manufacturers, CPTPP cumulation is unlikely to be a significant advantage. The UK automotive sector is highly

integrated with the European supply chain. Without the possibility to cumulate EU content, it is likely that a large number of UK finished vehicles will not benefit from preferential treatment under CPTPP.

31. If RVCs are unattainable for most UK finished vehicles, accession to CPTPP might ultimately result in asymmetric impacts, with manufacturers in the CPTPP region offered greater market access to the UK market even compared with the terms of existing continuity deals, while many UK exporters might not be accorded the same opportunity.
32. Origin requirements for most common parts and components are generally more relaxed compared with existing UK FTAs. For parts classified under HS code 87.08, CPTPP establishes a change of tariff subheading rule and alternative RVC rules with varying content thresholds for different accessories. For engines, RVCs are similar to most common precedents. The deal also includes a dedicated annex setting alternative processing rules for engines, chassis, bodies, and several typical accessories. Although rules for automotive components are more accommodating than those applicable to finished vehicles, RVCs for engines, parts and accessories, in many circumstances, are likely to be challenging if cumulation of EU content is not allowed.
33. For UK-based OEMs which have production plants in some CPTPP Member States, such as Japan, Mexico or Canada, the production of parts and components, such as engines, would benefit from preferential treatment under CPTPP and could consequently qualify their vehicles for exports. The asymmetric impact of CPTPP will, however, be felt by those OEMs and Tier One suppliers without an Asia-Pacific footprint.
34. In principle, CPTPP rules of origin for lithium-ion batteries and battery parts (HS codes 8507.60 and 8507.90) should be easier to attain compared to equivalent rules included in existing UK FTAs. This should help UK manufacturers of finished vehicles incorporating batteries originating from CPTPP countries. However, UK battery manufacturers are likely to meet CPTPP origin requirements only if a significant proportion of battery production processes will be localised in the UK over the next few years.
35. Recognising that the sector cannot operate under uncompetitive rules of origin, SMMT recommends that government consider the approach taken by some parties in signing bilateral agreements with its strategic CPTPP trading partners under side letters, as seen between Canada-Australia. Those side letters, which

can be sector-specific, could enable the applicability of different rules of origin for vehicles of heading 87.03 and other automotive goods.

Regulation & Standards

36. Since CPTPP is neither a Single Market nor a Customs Union, identical standards and regulations are not a requirement however the CPTPP Chapter on Technical Barriers to Trade (TBT) can be beneficial, particularly in enhancing parties' compliance with the basic WTO principles on TBTs.
37. However, CPTPP does not address some of the key concerns of the UK's automotive industry. The agreement does not include a specific annex on automotive products applicable to all CPTPP membership, leaving to single CPTPP parties to agree bilateral side instruments in this area. The only relevant legal instrument is Canada's bilateral automotive agreement with Japan. This bilateral agreement includes a safeguard mechanism that applies in cases of import surges, binding accelerated dispute settlement procedures, and the establishment of a bilateral committee on motor vehicle trade to discuss issues affecting trade and investment. Although the elements of this bilateral deal might be beneficial for the UK, even the Canada-Japan separate agreement does not address other key regulatory issues.
38. It is the UK automotive industry expectation that trade with CPTPP partners will grant the same market access conditions for UK automotive products established in existing or forthcoming bilateral renegotiations. If not, accession to CPTPP should only be a longer-term objective compared to ongoing bilateral trade talks.
39. For instance, the upgraded EU-Mexico FTA includes an automotive annex mandating the recognition of a number of UNECE regulations. Replicating or improving this annex in UK-Mexico negotiations throughout 2021 is a key priority for UK automotive businesses above CPTPP accession.
40. With regards to countries without a fully-fledged trade agreement already concluded, Australia is the most prominent market among CPTPP countries. Currently, Australia has mutual recognition agreements with the UK and the EU and it already widely accepts international UN regulations and certificates. There are a few areas however, where some European manufacturers perceive that UN Regulations are not yet fully accepted. These include child restraint anchorages, vehicles jacks, underbody

exhaust temperatures, ADR 69 – flat barrier test, license plate, certification label, build date, tyre labels.

41. In addition, the UK government should advocate for the removal or at least the reform of the Luxury Car Tax (LCT). This is currently the country's main non-tariff barrier for UK automotive manufacturers; a 33% luxury tax applied above the value of AUD 64,132 (approximately £35,000) for regular cars and AUD 75,526 (approximately £40,000) for fuel efficient vehicles. No tax on other 'luxury goods' exist in the country. Given that local automobile production ceased in 2017, it exclusively affects imported cars exceeding the aforementioned thresholds.

Customs

42. The existing customs procedures and border enforcement rules can cause high additional costs for some UK automotive companies. Costs can be borne through additional headcount and IT systems needed to navigate customs systems and processes.
43. Building upon the WTO Trade Facilitation Agreement, CPTPP Chapter 5 can increase trade facilitation between the UK and CPTPP countries, in particular the commitment to release normal shipments in 48 hours and ensure clearance of express shipments in 6 hours. However, UK borders are already facing capacity issues and the compatibility between future CPTPP customs procedures and new UK-EU arrangements is unclear, especially as the UK-EU customs controls do not fully come into force until 1 July and the impact on business remains unknown.

Intellectual Property

44. Government has singled out Intellectual Property (IP) as an area where CPTPP goes further than many chapters agreed within bilateral FTA's. There are, however, concerns about how effectively these provisions protect businesses, especially SME's.
45. Chapter 18 of CPTPP sets provisions that might be incompatible with the UK's participation to the European Patent Convention. In automotive, many of the new, small and emerging business in our sector are developing and patenting products, designs and applications which are world-leading and transformative as the sector shifts towards automation and connectivity.

46. It is therefore important that government's trade agenda, and the UK's negotiations with CPTPP nations, includes sensible intellectual property rights which support UK innovation.

Services and data

47. Automotive products are increasingly offered in conjunction with competitive financial packages. Ensuring that UK financial services and insurers will be able to further penetrate the CPTPP market could be beneficial for UK automotive exporters and investors. Singapore, in particular, is an important market for the digital economy with 70% of all UK services exports delivered remotely to Singapore last year, worth £3.2 billion.
48. The sector could benefit from the deal's modern provisions on digital trade, including those addressing data localisation, protection of commercial source code and encryption.

Mobility

49. UK automotive would benefit from provisions which help to facilitate intra-corporate transferees, movement of service providers, professionals, business visitors for establishment purposes. Increased mobility between the UK and CPTPP countries could help our industry to develop the capabilities and leadership abilities of our UK workforce.
50. A simplification of processes across all visa types would help facilitate the entry and temporary stay of business visitors, intra-corporate transferees, investors, contractual service suppliers, independent professional and short-term business visitors.

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