

SMMT Response to International Trade Committee Inquiry UK trade negotiations: Agreement with India

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.

How adequately has the Government undertaken public consultation in formulating its strategic approach / negotiating objectives?

2. The Department for International Trade and Automotive Unit within the Department for Business, Energy and Industrial Strategy have both reached out bilaterally to SMMT to discuss the sector's challenges when trading with India.
3. There has been an appreciation within government for the non-tariff, regulatory and market access barriers faced by the sector and the complexity of these challenges. The significant tariff faced by automotive exporters appears to be well understood and the industry is confident that this will be a key negotiation objective of UK negotiators.
4. Our sector has expressed the complex regulatory arena that UK automotive business operate in when exporting to India. Discussions have taken place with chapter leads and technical experts to understand how an FTA with India can address these issues in a bilateral deal. SMMT waits to see whether the government will prioritise negotiating an Automotive Annex as a means of reducing regulatory barriers and enhance regulatory cooperation, particularly ahead of an expected growth in alternatively fuelled and connected vehicles.
5. As a sector body, SMMT has responded to the government's consultation to represent, as best as we can, the views of the broader automotive industry. However, we understand that the ability for our members to respond bilaterally to government's negotiating objectives has been limited.

How adequate and appropriate is / are the Government's strategic approach / negotiating objectives?

6. Automotive cannot benefit from a UK-India FTA without significant tariff cuts. Existing tariffs price out UK manufactures from exporting to India and pose, to many, an insurmountable barrier. UK Government acknowledged these costs in its 'Strategic Approach' document, writing that "tariffs imposed on UK exports of vehicles and parts to India averaged at 59% in 2019. UK exports such as petroleum,

electric and hybrid motor vehicles face high tariffs, often reaching 125%. It is estimated that annual duties on UK exports of vehicles and vehicle parts was £49 million in 2019.”

7. Whilst challenging, government is correct in recognising that India presents a significant opportunity for UK automotive businesses looking to trade bilaterally. Car ownership in India is expected to grow exponentially over the coming years and the country has its own challenging targets to decarbonise its transport. Given these forthcoming stepping stones, industry is pleased to see automotive as a prioritised sector for UK Government.
8. However, there should still be some realism about the opportunities that lie ahead for British businesses. India is a notoriously difficult nation to trade with. Both politically and corporately, the country operates a vastly different environment than most businesses would be used to. In addition, there are regional variations to the bureaucratic and administrative requirements for exporters which add complexity and confusion. Addressing and removing these complications will be a highly sensitive topic for discussion and a tough ask from FTA negotiations.
9. In expectation that discussions around removing non-tariff and market access barriers will need to continue long after the conclusion of FTA negotiations, an Automotive Annex is critical with a partner such as India. Without this, we do not believe UK Automotive will be able to fully maximise the benefits of any deal.

How are the terms of a new trade agreement between the UK and India likely to affect you, your business or organisation, or those that you represent?

10. An ambitious deal that removes tariff, sets workable origin requirements, and reduces regulatory barriers in bilateral trade with India could represent a major opportunity for the UK automotive industry. On the contrary, limited tariff cuts, demanding rules of origin and the absence of dedicated measures tackling automotive non-tariff barriers are likely to benefit Indian competitors with no significant gains for most UK automotive exporters.
11. In its scoping work, UK Government has analysed two possible outcome of negotiations – 1) if the UK agrees a ‘shallow’ deal with slightly reduced tariffs; versus 2) a more comprehensive deal with substantial tariff cuts or a full tariff liberalisation.
12. In its public bundle, government identified that UK Automotive would experience either marginal benefits, or a loss of GVA in the circumstance that government negotiates a shallow deal (scenario 1). It is understood that a limited tariff reduction would greatly benefit Indian exporters and imports of Indian parts, whilst UK exporters would face tariff barriers that could close the market, even if the UK were able to benefit from slightly more favourable terms than our main competitors.
13. Under the second scenario, which assumes a far more ambitious deal with substantial tariff cuts or full removal, UK Automotive has the opportunity to reap more benefits, with expectation that businesses would have much better access to the market.

14. SMMT believes this analysis is realistic in recognising the significant effect of tariffs imposed by India. However, trade liberalisation alone would not provide tariff gains if the FTS's origin requirements are unattainable for UK automotive exporters. Only the combination of ambitious tariff cuts and liberal origin rules could deliver significant benefits for the UK automotive sector.
15. Furthermore, without addressing burdensome non-tariff barriers, such as the lack of conformity with internationally recognised standards and additional marking requirements, the added time and cost of trade with India will still act as a deterrent to some UK traders.

What are the potential impacts of an agreement on:

- a. **the UK's economy as a whole?**
 - b. **particular sectors of the UK economy?**
 - c. **the UK's devolved nations and English regions?**
 - d. **social, labour, environmental and animal welfare issues?**
 - e. **UK consumers?**
16. As a sector, automotive has historically struggled with trading in volume to India. In 2019, the UK exported less than 800 vehicles to India, accounting for just 0.7% of UK car exports. In 2020, exports fell to less than 600 vehicles. In 2019, India ranked as the UK's 58th market for the export of motor vehicles, with trade valued at £31.7m.
 17. Although small, the chance to build on existing UK-India automotive trade is significant. India's domestic automotive industry is transforming. The need to drive down emissions in the country will open the Indian automotive market to electric and alternatively fuelled vehicles. Combine this with the growing number of more affluent consumers means Indian citizens are becoming increasingly interested in having access to private transport.
 18. Another opportunity for collaboration and growth is in the aftermarket sector. The UK's aftermarket industry generates more than £21 billion in revenues, but that is still a fraction of what the British components industry could gain globally, particularly in a market such as India, where customers are very receptive to high-quality, well-known British brands. As a country with a prevalent culture of repairing rather than replacing vehicles, India is already a major market for British-built parts. A deal could also open major opportunities for UK remanufacturers.
 19. Furthermore, the UK's low volume vehicle manufacturers have a global reach and could benefit from the opening up of India's market more than volume manufacturers. In 2020, Asia represented the largest destination for small volume vehicles at 46.9% of exports and a substantial market for premium manufacturers with 28.1% of exports. As the Indian continent represents a major right-hand drive vehicle market, the UK should provide a natural base from which vehicles can be exported.
 20. As such, if the Government successfully negotiates a trade agreement which reduces market access and tariff barriers for the entire UK automotive industry, including low volume and premium manufacturers, every region of the UK where automotive has a foothold stands to benefit, including: the West Midlands, North-West, North-East, East and South-East of England.

How should the Government communicate its progress in negotiations; and seek the views of stakeholders during those negotiations?

21. Industry would welcome further opportunities to feed detailed information into government ahead of negotiation rounds on chapter topics, especially with regards to rules of origin, regulations, and customs.
22. After these rounds have concluded, industry should be informed by chapter leads in the Department for International Trade, as well as relevant colleagues in other departments on the progress of discussions. An open dialogue between industry and government about what is realistically open for negotiation will help automotive prioritise its asks and support government in its trade objectives.