

## **Written evidence submitted by SMMT**

### **Introduction & sector overview**

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 some £82 billion turnover and £18.6 billion value added. With some 168,000 people employed directly in manufacturing and 823,000 across the wider automotive industry, it accounts for 13% of total UK exports with over 150 countries importing UK produced vehicles, and generating more than £100 billion of trade. 30 manufacturers build in excess of 70 models of vehicle in the UK supported by more than 2,500 component providers and some of the world's most skilled engineers.
2. With automotive as one of the UK's most valuable economic assets, embedded in communities across the country and therefore is a key sector in aiding government with its domestic aims for reaching net-zero, levelling-up and its new global trade agenda. UK automotive is fundamentally strong, but it needs sector specific measures to ensure that it remains competitive with the rest of the world, delivers growth, supports highly skilled jobs and helps bring to market new, greener technologies which will support the UK's net-zero ambitions.

### **Covid-19 impact**

3. UK automotive businesses of all types, sizes and parts of the sector are being impacted by the current circumstances and want to be able to sustain their businesses to deliver for the UK economy now and in the future. As a global industry, many automotive companies were exposed to the severe impacts of COVID-19 before the full effects were felt in the UK. We saw our major export markets closed, UK vehicle manufacturing halted, supply-chains either ceased, impacted or uncertain, and dealerships and many garages closed. Our latest statistics show that the new car market in July was up 11.3%, but over the first seven months were down 41.9% and are expected to decline by over 30% over the full year. Car production in June was down 48.2%, after being virtually nothing in April and May, and down 42.8% over the first half of the year. CV and engine production was also down over the first half of the year. Our revised independent outlook now expects UK automotive manufacturing to produce less than one million units in 2020, with lost production costing the sector up to £12.5bn. These are units and revenues that we cannot claw back, and this loss of demand puts highly skilled jobs across the sector at risk; one in six jobs could be at risk of redundancy according to our latest member survey.
4. Coronavirus continues to have a significant impact on the sector, with many plants still closed, thousands of workers still on furlough and the prospects for a demand-led recovery receding rapidly. Member surveys anticipate a recovery to more normal operating levels is not imminent – with 12-24 months more likely. The scale and scope of impact is unprecedented and differs to the 08/09 financial crisis, and therefore the scale and scope of the policy response must reflect this.
5. SMMT has engaged with government throughout the COVID-19 crisis, and now as we enter the restart and recovery phase. SMMT participated in the 'net-zero' group of the Secretary of State for Business' Recovery Roundtables. This response outlines some of the key issues and asks for the industry in relation to the net-zero and green recovery agenda. SMMT will also be developing further inputs to government ahead of the Budget and Spending Review.

### **UK automotive manufacturing & investment**

6. The UK automotive industry is fully committed to achieving zero tailpipe emissions and minimising the environmental impact of its operations, helping to achieve the goal of net zero

greenhouse gas emissions in the UK by 2050. This will not be an easy transition but one that industry will drive to succeed. As we entered the COVID-19 lockdown, this transition was a priority of UK automotive, and it remains so.

7. Large sections of the UK automotive industry are currently geared towards producing internal combustion engines and vehicles, as well as substantial investment into the production of hybrids. The industry takes great pride in its skilled workforce and its ability to produce 2.52 million engines in 2019 for use across the globe. Of the 1.3 million cars that were built in the UK last year there were over 190,000 electrified cars (BEV, PHEV and HEV), an increase of some 35%. These models accounted for around 15% of total output, up from below 10% in 2018. BEVs accounted for just over 3% of the total.
8. As the industry transitions to more ultra-low and zero emission vehicles, the UK's offering as a globally competitive country in which to produce and export alternatively fuelled vehicles, and develop the necessary supply chains, needs to reflect this. Government's commitment to scale manufacturing of batteries and the wider electric vehicle supply chain as part of the £1 billion funding announcement in September 2019, and reiterated by the Prime Minister in July 2020, is a step in the right direction. The Automotive Transformation Fund (£760m) needs to be launched in full now. Project funding by the Advanced Propulsion Centre (£225m) needs to be extended by an additional three years. But much more needs to be done and government support upscaled to match the automotive packages advanced by other nations such as France, Germany and Spain.
9. The UK requires eight giga-factories, each with a capacity of around 15 GWh per annum, by 2040. This mirrors the Faraday Institution's projection of the need for about seven giga-factories, each with a 20 GWh capacity per annum. Based on the assumption that a 16 GWh capacity battery production facility will feed the production of up to 250,000 BEVs each with up to 300 miles range, eight giga-factories will ensure the UK is capable of producing around two million BEVs averaged across all segments (or more ULEVs, if a mix of different electrified powertrains are considered) per annum. This capacity, however, is still less than 10% of the projected 1.2 TWh of European battery production capacity per annum in 2040.
10. Achieving this will help anchor vehicle production and sustain and grow the domestic EV supply chain – power electronics, motors and drives (PEMD). Significant opportunities lie in the electrical and electronics value chain where the UK has deep capabilities. Similarly, light-weighting and advanced materials, which play an important role in the decarbonisation of road transport and especially in the UK's world leading specialist, luxury and sports vehicle segment, must be further supported in the transition to net-zero. Supporting these essential net-zero technologies and supply chains is critical to increasing UK capabilities, IP and content in finished vehicles.
11. The UK business environment and cost base also needs to be internationally competitive. This is needed to de-risk and support the massive investment in the sector, to move from restart to recovery and growth, maximising UK industrial opportunities, and jobs growth from the transition to zero. R&D tax credits need to reach internationally competitive levels. The higher UK cost base, e.g. on business rates and energy costs, needs to be addressed. Capital for recovery and growth should be made accessible to automotive businesses large and small through routes like the previous Regional Growth Fund, AMSCI or Export Finance. All of this is critical if UK automotive is to continue generating over £100 billion worth of trade and maintain its position as the UK's largest exporter of goods. Global investors looking at automotive are forensic in their examination and comparison of their cost bases across the world. SMMT welcomes supportive measures already taken by government for capital allowances. We recommend that the main pool capital rate be increased to at least 20% and expand the range of assets that can qualify for enhanced capital allowances to incentivise investment behaviour, particularly for environmental technologies.
12. It will also be important to avoid carbon leakage, through supportive investment, aligning with net zero. Although automotive is not typically seen as energy intensive (as the value of its

products are relatively high), energy is the second largest in-house cost and automotive does have a very high trade intensity ratio, which means it is subject to carbon leakage – especially given the globally competitive nature of the automotive sector. To note, over 80% of what we produced is exported (half of which to the EU) and almost 90% of what is first registered (i.e. sold) here is imported (almost 70% of which from the EU).

13. Significant tax breaks or incentives that go beyond the current Industrial Energy Transformation Fund, are required to incentivise the huge investments that are needed to decarbonise the manufacturing processes in UK automotive. For example, early estimates suggest a switch from gas to hydrogen may be in the region of £50 million per site. Consideration should be given to other possible options, such as biofuels, which are widely used in other countries. Further, manufacturing (and conditioning) of batteries for electric vehicles should ideally be exempted from the climate change levy, through the min/met exemption, or at the least be eligible to join SMMT's climate change levy agreement.
14. From an automotive manufacturing perspective, to reach zero emissions, a radical move is needed. This may mean a switch to sustainable hydrogen as a fuel or switching to electric processes (assuming electricity becomes decarbonised, and this is the most efficient option). However, at present the technologies to do this, especially on a commercial and industrial scale, do not exist, are unproven or are not cost effective. There are also areas of production that will be particularly hard to decarbonise. An example would be paint shops, which need to operate at very high temperatures. Government needs to encourage and support research and development in these challenging areas to help ensure decarbonisation is achieved. For example, in carbon capture, storage and utilisation.
15. The circular economy and automotive 'remanufacturing' sector also play a valuable role in reducing the use of natural resources, and in turn, the CO<sub>2</sub> produced from manufacturing 'single life' products. It also reduces the cost and potentially further CO<sub>2</sub> associated with the disposal of this waste when these products come to a premature end. However, currently there are no government policies which help support or encourage the expansion of this important sector. Eco Design exists for 'energy related' products but this needs to be extended further to cover 'non energy related' products. Furthermore, protecting high environmental standards must be maintained as new trade deals are agreed.
16. Green, low carbon resource efficient products should also be encouraged through public procurement indices being developed to take account of the true total economic cost of linear products, to provide a level playing field when comparing products from the circular economy.

## **Buses**

17. UK bus manufacturing is a global leader and a technological centre of excellence. The UK market's structure and outlook has encouraged the industry to make significant investments in innovative, efficient lightweight platforms and pioneering ultra-low and zero emission technologies. The UK operates Europe's largest EV bus fleet, most of which was designed and built in the UK.
18. Covid-19 has impacted the sector substantially, adding to the existing issue of long-term ridership decline. Support for recovery of the industry is critical. Due to the significant negative impact on the industry from the coronavirus pandemic, the industry is not seeking new, additional support, but for existing government plans and spending commitments to be immediately brought forward – certainly before the end of 2020 and we need to see the new National Bus Strategy and a long-term funding settlement for buses in the 2020 Comprehensive Spending Review.

## **Supporting demand and vehicle infrastructure**

19. The consumer is core to delivering both a strong demand-led restart and recovery as well as the transition to Ultra-Low Emission Vehicles (ULEVs). UK automotive seeks a market

stimulus package which delivers not only VAT receipts and wider economic benefits, but also stimulate the breadth of the vehicle market, and is open to all technologies and with additional environmental measures. Market stimulus packages introduced to support COVID-19 recovery in major EU markets have delivered real benefits, including for EV manufacturing and uptake.

20. From private motorists to fleets, automotive consumers are varied and their needs very different. Whilst there are some early adopters from both segments, for mass market adoption, there must be the right vehicles, the right infrastructure and the right incentives, complemented by long-term certainty on future taxation policy and clear communication on the lowest emitting vehicle technologies today.
21. While the automotive industry welcomes government's ambition in this space, effort and policy focus must be centred on creating the right ecosystem to deliver the transition, regardless of any phase-out date. A cross-sectoral strategy and roadmap must be urgently developed, one that incorporates commitments and targets on the development of infrastructure, consumer incentives, supporting energy provision, alongside effective communication to consumers on technology choices. Progress must be reviewed at regular 5-yearly intervals, beginning in 2025, with key enabling metrics reported annually to track progress against plan.
22. Currently plug-in vehicles are more expensive for manufacturers to produce largely due to the cost of the battery. Therefore, until cost parity is reached, fiscal incentives are essential to driving the market towards ULEVs, helping overcome the higher upfront cost and helping manufacturers offer the right vehicle at the right price. Fiscal incentives have been clearly demonstrated to positively drive the uptake of particular technologies, for example, in other countries seeking to encourage the uptake of ultra-low and zero emission vehicles. To support accelerated uptake of ultra-low emission cars in the UK, SMMT proposes a package of measures are introduced, resulting in these vehicles effectively becoming tax-free (for example paying no VAT, VED or company car tax for an extended period). This will help address the higher upfront cost of a ULEV car, compared with an ICE.
23. As we seek to encourage consumers into the newest, cleanest technologies today, ensuring continued reduction in CO<sub>2</sub> emissions, we must avoid a situation where key technology choices are ruled out and incentives are reduced or removed – this would simply result in consumers retaining older, higher emitting vehicles. This would increase the risk of government failing to reach its carbon budgets in the near to medium term. Any fall in the sales of new cars and vans would result in lost investment into future technologies, stalling future innovation and development. Government policy and language is of crucial importance for consumer confidence and to meet any of the objectives in this sphere, consumer confidence must not be undermined.
24. Electric charging and hydrogen refuelling infrastructure should also be a priority focus for government – this is essential to drive the early adoption of plug-in vehicles. To achieve the right charging infrastructure, we need a truly accessible, ubiquitous, interoperable nationwide network of electric charging and hydrogen refuelling points that satisfies the needs of all road users. To help achieve this, financial support and technical guidance for local authorities, including on planning permission and technical standards, with a requirement to adhere to national standards is required. The design and installation of electric charging and hydrogen refuelling infrastructure must be considered holistically, alongside wider energy and infrastructure provision plans and local authority regeneration and place-making policies. The provision of rapid and ultra-rapid electric vehicle charging hubs and hydrogen refuelling infrastructure across the strategic road and motorway network should be planned and delivered based on the high levels of ambition set out in the Road to Zero strategy. To ensure compatibility with the range of plug-in vehicles on the market there is also a need for multi-standard charging technologies and a consistent method of charging. Government must commit to support and invest in the delivery of a national network of hydrogen refuelling stations based initially on a clustering strategy that has been developed jointly with industry

via UK H2Mobility. A national, strategic plan to be delivered locally should be developed to uplift the number of chargepoints and to ensure the right type of chargers are in the right places. Additional government support for rural areas should be provided after adequate assessment.

25. In order to ensure local electricity networks are prepared for the escalated uptake of electric vehicles in these coming two decades, it is not always possible to rely on smart charging alone to balance the grid. Government must commit to anticipatory investments in local networks that are most constrained so that households do not have to choose between charging an electric vehicle and putting the kettle or electric cooker on.
26. Ambitious government announcements on long-term future policy can create unintended consumer confusion over which technologies to buy today. **Furthermore, Government language must support this transition.** Industry is concerned with any slowdown in fleet renewal, keeping people in their older vehicles for longer, adversely impacts the environmental profile of the fleet, reduces supply of new technologies to the used vehicle market and restricts the industry's ability to invest in, and market, future technologies.
27. To deliver on our shared responsibilities, SMMT strongly supports the importance of local decision making and the desire to set local targets. However, from an automotive and consumer perspective, it is important that there is still a defined, uniform and enforceable national standard or framework to prevent confusion as differing local standards can mean individual consumers, fleets or operators are left confused on where they are able to drive their vehicle and where this is not possible without incurring a charge. The uncertainty around local emissions reduction strategies has led to consumers deferring their new vehicle purchase; this in turn has stalled fleet renewal and can lead to a regression in environmental improvements. Consistency and all efforts to avoid fragmentation in policy-making and implementation is critical.

## Skills

28. The current situation of Covid-19 raises an opportunity for the UK government and business community to address both long-standing and future skills requirements to ensure evolving industries, such as automotive, have a workforce which can meet the requirements of the immediate and near future. In the medium-longer term recovery and for future competitiveness, further initiatives will be required as the automotive industry looks to strengthen the ability to position itself as a globally competitive market and meet government environmental and technological ambitions.
29. This next phase of requirements, beyond the immediate employee retention focus, will be developed over the next 2 or 3 months with the aim of improving the performance of UK automotive over the timeframe 2022-2025. Proposals would focus on the design, development and roll-out of training and learning packages to develop higher-level skill sets over a wider range of subjects, including in digitalisation and electrification, with different delivery methods and wider subject matter to address the needs of the existing workforce, as well as individuals who are not in work. The industry, working through the Automotive Council Skills Working Group is developing plans and will seek government support to deliver.
30. SMMT is developing wider recovery and longer-term asks ahead of the Comprehensive Spending Review on Apprenticeships including considering how to better utilise the Apprenticeship Levy 'pots' to upskill individuals, benefit businesses and the wider economy.

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