



European
Automobile
Manufacturers
Association

ACEA Position Paper EU-UK Trade Negotiations



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KEY MESSAGES

- a. European automobile manufacturers call on the European Union and the United Kingdom to conclude a trade agreement that reflects the needs and high ambitions of the automotive sector.
- b. Any EU-UK trade agreement must provide for:
 - zero tariffs;
 - rules of origin that reflect manufacturing realities;
 - effective customs facilitation measures; and it should
 - ensure the absence of technical barriers to trade.
- c. A no-deal scenario would be catastrophic to the automotive sector and should be avoided at all reasonable cost.

1) INTRODUCTION

The EU's single market has been an essential component in creating a successful and highly integrated European automotive industry.

The auto sector is an essential pillar of the European economy. In 2019, automobile manufacturers in the EU27 **produced over 16.3 million vehicles**, directly **employing 2.5 million workers** and generating a **turnover of €1 trillion**, which represents almost **7% of the EU's total GDP**.

The United Kingdom has been an integral element of the European automotive industry for decades, both motor vehicle manufacturers and their suppliers depend on cross-Channel trade in their supply chains.

Every year, almost **3 million motor vehicles worth €54 billion are traded between the EU and the UK**. In addition, cross-Channel trade in automotive parts accounts for almost €14 billion annually.

Any change to this deep economic and regulatory integration between the EU and the United Kingdom will have an adverse impact on automobile manufacturers with operations in the EU, as well as on the European economy in general.

At the same time, Brexit has created an unprecedented level of uncertainty in the automotive sector. The European Automobile Manufacturers' Association (ACEA) calls on both sides to bear in mind the unique circumstances, as well as the intertwining of EU / UK supply chains, by **concluding a trade agreement to reflect the needs and high ambitions of the automotive sector**.

Should both parties not be able to reach a deal by the end of the transition period, the consequences for the auto industry and for the European economy would be catastrophic. **A no-deal scenario should be avoided at all reasonable cost.**

2) THE FUTURE RELATIONSHIP

Any future EU-UK trade agreement must combine several key elements to ensure that it successfully allows for free trade in goods, those are: zero tariffs, rules of origin that reflect the realities of manufacturing structures, effective customs facilitation measures and the absence of technical barriers to trade. It is essential that the EU and the UK seek to apply these principles in their negotiations.

Market access

Tariff free trading between the European Union and the United Kingdom in motor vehicles and automotive parts must continue. Duties on completely built units and on all automotive parts should be zero from day one of an agreement.

Rules of origin

The implementation of a **phase-in period** for new rule of origin requirements for passenger cars is highly significant. This phase-in period should temporarily allow for greater use of non-originating material to enable readjustment in unique circumstances. The permanent rule of origin for passenger cars should allow for the use of **50% non-originating material**.

The rule of origin for **trucks and busses should also allow for the use of 50% non-originating material**. Again, to meet this requirement a phase-in period that temporarily allows for greater use of non-originating material should be applied.

As standard in free trade agreements (FTAs), bilateral cumulation should be included to allow intermediary goods manufactured in one party to the agreement count towards originating content when the final good is manufactured in the other party.

An **exception to the rules of origin** referred to above must be made **for trade in batteries for electrified vehicles**. Currently there is extremely limited battery manufacturing capacity in the European Union (especially for battery cells and raw materials) and vehicles are mainly being fitted with imported batteries. If a battery cannot obtain European origin then it is effectively impossible for the vehicle to be eligible for tariff preferences, should the rules of origin be based on recent precedent (ie those rules that have been agreed in recent EU FTAs).

Given the lack of battery manufacturing capacity in the 27 EU member states (EU27) and the United Kingdom, and the high value of the battery in the overall cost of a completely built vehicle, it would be impossible to comply with such restrictive rules of origin.

As developing and deploying battery technologies is a fundamental challenge for the automobile industry and a cornerstone of Europe's ambitious agenda to address climate change, the rules of this FTA must not limit manufacturers' abilities to bring this technology to market.

Indeed, ACEA believes that **much more liberal rules of origin need to be applied in this trade agreement** and be maintained at least in the medium term. Should the European Commission seek to progressively restrict rules of origin related to battery technology then this should only be done

in a way that can be calibrated against an increase in European battery manufacturing capacity.

- Note: ACEA is preparing a separate paper on rules of origin (ROO), looking in more detail at all technical aspects concerning ROO application. This will be published in the near future.

Customs and trade facilitation

With approximately 30,000 parts used in the construction of an average combustion engine passenger car, and many times more that are needed for the assembly of commercial vehicles, the automobile industry relies on just-in-time manufacturing schedules in order to minimise inventory and maximise efficiency.

Due to such significant cross-Channel trade in the automotive sector, and with the introduction of customs controls at border points of exit and entry, the industry will run a **significant risk that delays in the arrival of parts and components will have consequences for manufacturing** as well as the **timely delivery of motor vehicles and critical after-market services**.

To ease the burden on traders, various **customs facilitation measures** should be taken by both sides. For example:

- Implementing a simplified model for customs clearance, eg by way of a self-assessment scheme, accompanied by the acceptance of the customs authorities for the exchange of customs-relevant information electronically, to help reduce the cost and burden for traders.
- This could be enabled on both sides of the Channel via mutual recognition of Authorised Economic Operators (AEOs) / trusted trader schemes.
- This would require the development of a fully interconnected and interoperable single window system to facilitate trade by, among other things, converging import and export data and documentation requirements, and establishing a single location for documentary and physical verification of consignments.
- It would require a high degree of cooperation between the UK's HM Revenue and Customs and customs authorities of EU member states, allowing information and data sharing between customs authorities so as to facilitate the smooth movement of goods through points of exit and entry into the UK and the EU.
- Finally, this would also require a transparent dispute settlement mechanism.

The EU and the UK should explore ways in which such simplifications could be extended to other economic operators to reduce the burden on them. In particular SMEs (suppliers to the automotive industry) with little, or possibly no, import / export experience will struggle to cope with introducing such procedures into their logistics management.

A highly significant **reinforcement of customs capacity** will be needed in order to enable authorities on both sides of the Channel to handle the sudden and massive increase in customs procedures and to avoid bottlenecks that will lead to inevitable business critical and costly delays.

Procedures for **origin verification** should allow for the final decision on whether to grant tariff preferences to remain with the customs authority of the exporting party.

- Note: ACEA is preparing a stand-alone paper on customs facilitation, which will be published in the near future.

Regulatory cooperation

The automotive sector on both sides of the Channel needs the United Kingdom to remain as closely aligned with EU regulation as possible. **Divergent legislation could become a massive impediment to trade**, requiring manufacturers to adapt or develop new technologies in order to comply with different requirements. The cost implications of such changes could be very significant and would amount to a non-tariff barrier to trade.

In their common interests, the EU and the UK should actively maintain alignment across all automotive-relevant legislation and in particular for key legislation – such as those on type approval, safety, environmental regulation, end-of-life requirements, etc – as well as the framework for future technologies such as connected and automated vehicles.

Should the United Kingdom ever diverge, it is absolutely necessary that any changes to its requirements are done in close consultation with both manufacturers and the European Union, and allow sufficient lead-in times so that the former can have sufficient time to adapt.

The agreement should foresee the establishment of a **permanent working group on automotive issues** which will allow for the EU and UK regulators to meet regularly to discuss matters related to regulation in the automotive sector.

Rather than merely replicating the framework of current regulatory cooperation structures under existing EU FTAs, this structure should be **enhanced by allowing for a much greater degree of consultation and dialogue between regulators in the EU and in the UK than currently exists** under the basic FTA model. In particular, where the UK expresses a willingness to maintain alignment with EU regulations, standards, etc then the EU should show flexibility in facilitating such an enhanced level of regulatory cooperation.

Automotive annex

Regardless of the level of regulatory alignment between the EU and the UK, the agreement of a comprehensive automotive annex will be helpful in ensuring long-term alignment of the EU and the UK for regulation in certain technical areas.

The objectives of an automotive annex are to prevent non-tariff barriers to trade by promoting compatibility and convergence of regulations based on international standards; promoting the recognition of approvals based in particular on approval schemes applied under UNECE WP.29; protecting human health, safety and the environment; and to enhance regulatory cooperation that is ultimately beneficial to the development of trade.

To ensure regulatory convergence in the long term, the United Kingdom should recognise the

equivalency of a comprehensive list of UNECE regulations and general technical regulations that it already de facto adheres to.

This automotive annex should also include provisions related inter alia to non-tariff barriers, new technologies, remanufactured goods, etc.

- Note: ACEA is preparing a separate paper concerning the need for, and benefit of, agreeing a sectoral annex for the automotive industry. This will be published in the near future.

Type approval

In order to avoid unnecessary duplication of certification procedures both parties should agree to mutually recognise reports, certificates and authorisations issued by the conformity assessment bodies of either the United Kingdom or the EU27.

Such mutual recognition has a precedent in the existing agreement between the EU and Switzerland, which requires continued regulatory alignment.

Legislative compatibility is a prerequisite for mutual recognition. In order to facilitate this, the United Kingdom needs to transpose all relevant EU regulation into its national law and maintain harmonisation in the future. The European Union should be flexible in order to allow for such a high degree of harmonisation, which will benefit EU27 manufacturers as well as those in the UK.

Data protection and transfer

Unrestricted transfer of data to and from the UK will be of critical importance to ACEA members. This data could belong, for example, to customers individually, be related to their motor vehicle or connected to retailers and their business.

The EU's General Data Protection Regulation of 2018 allows for the cross-border transfer of data without the need for special safeguards to protect it, should that data be communicated with countries that maintain sufficiently high standards of protection in their national laws.

Hence, the UK GDPR (merging the UK Data Protection Act of 2018 with the requirements of the EU GDPR) should initially be completely aligned with the EU's own regulation, and would ideally remain so in the long term. This should be sufficient to decide on the adequacy of protection afforded by the United Kingdom.

Movement of people

The automotive industry on both sides of the Channel depends on a skilled workforce moving in both directions between the EU and the UK. It is highly important that this can continue as freely as possible and in a way that avoids excessively time-consuming or bureaucratic procedures.

3) THE THREAT OF A NO-DEAL OUTCOME

ACEA encourages the European Union and the UK Government to be realistic with regard to the

time needed to negotiate a deal and – in order to avoid prolonged and unnecessary uncertainty – to adhere to the requirements of the withdrawal agreement for extending the transitional arrangement.

Europe's automobile manufacturers are concerned that the **time remaining in the transitional arrangement is insufficient** and that the **unintended consequence of this could be a no-deal scenario**.

Such an outcome would be catastrophic to the automotive sector, and to the European economy in general, and should be avoided at all reasonable cost.

In terms of tariffs alone, this could have a massive impact. Trading under World Trade Organisation (WTO) terms and applying a 10 or a 22% tariff – depending motor vehicle type and based on the EU's current tariff structure – could result in import duties of approximately €6 billion being added to the cost of doing cross-Channel trade¹.

Even if such a deal could be concluded within the existing time parameters it will give business (and national customs administrations, for example) an extremely limited period to adjust between the notification of the final deal and its effective implementation.

This is a major concern as ACEA foresees the same market uncertainty and planning insecurity that damaged the industry during the Brexit process continuing during the transitional arrangement.

4) CONCLUSION

Brexit has given rise to a unique and unprecedented level of upheaval in the automotive sector. These unprecedented circumstances mean that the **scale and ambition of the trade agreement that replaces the UK's membership of the EU must reflect the needs of Europe's key manufacturing sectors**.

It is absolutely essential that any trade agreement provides for trade in goods and services with zero tariffs, workable rules of origin, effective customs facilitation measures and that it prohibits the emergence of technical barriers to trade.

In all circumstances the European Union and the United Kingdom bear the responsibility to avoid a no-deal scenario that would have grave implications for businesses in a key sector of their economies and all that that could entail vis-à-vis profitability, employment, etc.

¹ Based on 2019 values of trade and only for motor vehicles, not including parts



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ABOUT THE EU AUTOMOBILE INDUSTRY

- 13.8 million Europeans work in the auto industry (directly and indirectly), accounting for 6.1% of all EU jobs.
- 11.4% of EU manufacturing jobs – some 3.5 million – are in the automotive sector.
- Motor vehicles account for €428 billion in taxes in the EU15 countries alone.
- The automobile industry generates a trade surplus of €84.4 billion for the EU.
- The turnover generated by the auto industry represents over 7% of EU GDP.
- Investing €57.4 billion in R&D annually, the automotive sector is Europe's largest private contributor to innovation, accounting for 28% of total EU spending.

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