

POSITION PAPER

EU-UK FTA

For an integrated and competitive European
automotive industry



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January 2020 marked the end of the UK's membership of the EU and the start of unique and unprecedented trade negotiations. For the first time the EU and a third country will negotiate a deal that will include more barriers to trade than the arrangement that it replaces.

The ambition formulated in the revised Political Declaration to establish a "flexible partnership with a Free Trade Agreement (FTA) at its core" represents great risks for the European automotive sector. A conventional EU-UK free trade agreement without automotive-specific trade facilitating measures and customs arrangements would result in new barriers to trade and friction at the border. This proposal aims to avoid disruption of the EU-UK automotive sector by proposing trade conditions, customs procedures and implementation timelines tailored to the automotive supply chain.

The automotive sector provides jobs to 13.8 million Europeans, of which an estimated 2.3 million (17%) depend on export to countries outside of the EU¹. The UK automotive industry plays a significant part in the export success story of the European automotive industry and an ambitious agreement is therefore pivotal to the competitiveness of our industry at a global level.

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It is in the mutual interest of the EU and the UK to avoid disruption of the automotive sector's highly integrated supply chain

Every day, 1,100 EU trucks deliver components representing a value of €48.7 million to production facilities in the UK², after which they undergo further industrial transformation. Subsequently, they are either shipped back to the EU for further processing or they are integrated into cars and engines exported to the EU, but also to the US, Asia and other non-European destinations. It is in the mutual interest of the EU and the UK to avoid disruption of the automotive sector's highly integrated supply chain.

¹Estimate based DG Trade's Chief Economist Note, November 2018 and Eurostat FY 2019 data for 8703, 8704 and 8708 Extra EU Trade

²SMMT's 2019 Automotive Trade Report

Key Objectives

CLEPA advocates the inclusion of an Automotive Annex into the FTA that is aimed to be completed by the end of 2020, securing tariff-free trade, maximum market access and fair competition through:

- ◆ **Regulatory continuity** of current EU and the UK automotive regulations and alignment of future regulations to avoid non-tariff barriers, maintain scale advantages and protect the competitiveness of Europe's auto industry.
- ◆ **Tailored trade conditions and alternative customs procedures**, avoiding disruption of the highly integrated EU-UK automotive supply chain, organising customs inspections away from the border.
- ◆ **Feasible implementation timelines** with sufficient phasing-in times reflecting model cycles to avoid disruptions that could damage the industry's reliable reputation with global clients.

If necessary, an extension of the transition period should be considered to avoid a cliff edge scenario or the completion of an FTA too limited in scope.

CLEPA understands that the UK's departure from the EU is the outcome of a democratic process and automotive suppliers respect this. At the same time, the international competitiveness of the automotive sector—a shared European and British industrial asset—should not be sacrificed in an attempt to deliver political objectives in an extraordinarily short timeframe in the form of a FTA too limited in scope. A failure in the negotiations to address the economic needs of the automotive sector would negatively impact many regions across the UK and EU. The jobs, livelihoods and communities of hundreds of thousands of people are at stake.



1. Regulatory provisions and market access

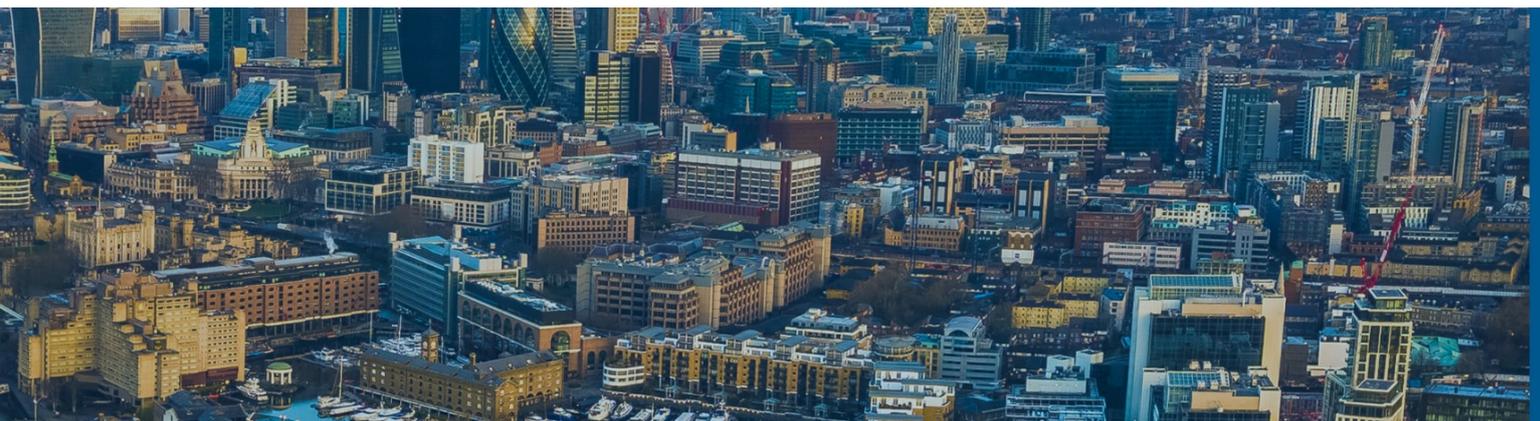
The EU and the UK benefit from a system of harmonised and shared regulation concerning the automotive industry. Therefore, the establishment of regulatory continuity to avoid a divergence of these standards is crucial under the European type approval system. The EU and UK should strive for mutual recognition of certifications.

CLEPA calls both sides to show flexibility to avoid that either of the two parties becomes a mere rule taker, while recognising differences in demographic and economic clout. The EU and UK should include in the deal governance arrangements that provide for ongoing regulatory cooperation between the two parties that will serve the purpose of avoiding regulatory divergence, reducing market access for both sides and increasing cost of doing business through the introduction of unnecessary administrative procedures, while maintaining the current high level of safety, environmental and other standards.

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Continuity of the shared regulatory framework should be prioritised in the following areas:

- ◆ **Type approval and market surveillance**
- ◆ **MVBER regulation**
- ◆ **Active and passive safety**
- ◆ **Emissions and fuel consumption** including Euro standards and CO₂ legislation.
- ◆ **End of Life Vehicles (ELV), recycling**
- ◆ **REACH, and conflict minerals**
- ◆ **Connected and automated driving and data protection**
- ◆ **Intellectual property rights, patents, designs, and brands**
- ◆ **Investment protection rules and freedom of establishment**



2. Protection of the Single Market

The combination of the customs union and the single market allowed for full and unrestricted trade in goods and services for the EU and the UK automotive industry with no formal customs procedures or unnecessary stops or checks at the border.

CLEPA acknowledges that in the long run there are risks of trade diversion from third countries if this liberal regime were to be maintained without alignment of the external trade policies of the EU and UK. To avoid a situation in which goods fully manufactured outside the FTA zone benefit from preferential treatment, Rules of Origin (RoO) introduce industrial transformation requirements to be fulfilled to benefit from preferential treatment.

A phasing-in period should be included in the deal, that takes into account the integrated nature of the industry

CLEPA calls for RoO requirements with a maximum degree of flexibility and a minimum administrative burden. As part of this, a phasing-in period should be included in the deal, that takes into account the integrated nature of the European automotive industry, and recognises that suppliers will need time to adapt systems, processes and contracts before they will be able to prove the origin of content in the context of a EU/UK trade deal.

During the phasing-in period, exceptionally simplified RoO requirements and appropriate review clauses tied to a predefined period should be considered, allowing both parties to tighten RoO procedures in case of trade diversion. Additional, temporary audit tools for customs authorities of importing countries could be considered to facilitate highly simplified procedures during a predefined period.



3. Frictionless trade

EU automotive businesses benefit from tariff-free access to the UK market and vice versa. This should continue with as little disruption as possible in the transition to a new relationship between the EU and the UK. CLEPA strongly advises against the imposition of tariffs or quotas on imports from the UK into the EU and vice versa.

Full bilateral cumulation and self-certification should minimise RoO related barriers to trade. Bilateral cumulation allows originating products of the EU to be further processed or added to products originating in the UK and vice versa and therefore allows components to be processed in the EU and UK without facing tariffs. Self-certification of origin avoids the involvement of third parties such as customs authorities.

The UK plays a significant role as an export hub to Japan, South Korea, China and the Middle East, exporting annually €17 billion in vehicles and triggering up to €3 billion of export in auto parts from the EU into the UK³. Disruption of the ability of UK manufacturers to export to these markets therefore also damages the EU industry. CLEPA therefore advocates for measures allowing for full, multi-lateral cumulation of automotive content originating or processed in key trading partners of both the EU and the UK, such as Japan, South Korea and Euro-Mediterranean countries.

A customs union would be the best institutional arrangement to maintain an integrated industry in the long run

However, these measures will not be able to completely mitigate against the increase in red tape and the higher prevalence of disruptions at the border. While acknowledging that there is currently no mandate on the UK side to negotiate a customs union inspired arrangement, CLEPA believes that in the long run this would be the best institutional arrangement to maintain an integrated industry with frictionless trade.



³Estimate based on UN Comtrade data for UK exports of 8703 and added value contribution of parts and UK sourcing of EU parts data based on public hearings House of Commons, held in November 2017

4. Tailored trade conditions and alternative custom procedures

Traditional preferential treatment verification procedures are an administrative burden and likely to result in controls at the border. Furthermore, the requirement to track added value across the supply chain represents a significant financial burden (~2-6% of final product price⁴) to businesses.

The EU and UK should therefore aim to agree on alternative RoO for all major automotive products. These rules should allow a larger use of change of tariff heading and tariff sub-heading provisions and include simple product-specific processing rules as an alternative to the value-added rule.

Negotiators should make the border as frictionless as possible by agreeing to the deepest level of cooperation

Further facilitative measures include the option to calculate origin by averaging content by model and factory, the reciprocal possibility to claim duty drawbacks, longer validity of origin proofs, **retrospective claims, modern rules on non-alteration and no direct shipment rule.**

While it is clear that frictionless trade cannot be delivered if the UK is not part of the Customs Union, we encourage negotiators to make the border as frictionless as possible. This can be done by agreeing to the most comprehensive and deepest level of cooperation possible in relation to customs, and making provision for:

- ◆ **Simplified customs procedures** to facilitate trade;

- ◆ **A shared trusted trader scheme** that allows as many automotive companies as possible to have goods cleared at the point of destination or before shipment, avoiding the need to stop at the border;
- ◆ **Information and data** sharing between customs authorities;
- ◆ **Cooperation** between customs authorities in EU member states and the UK;
- ◆ 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;
- ◆ A transparent and robust **arbitration framework** as part of the overarching governance framework of the deal.

Risk assessments will be conducted by customs authorities as part of the authorisation procedure for trusted trader schemes and audits will take place as is common practice. Measures should be taken to ensure SME's can also authorise for simplified customs handling. These simplified procedures should continue to apply after the phasing-in period.

⁴Centre for European Reform, March 2018

5. Feasible implementation timelines

The industry will need time to adapt processes, procedures and contractual relationships to the new EU-UK trade relationship.

Among automotive suppliers are many operators that have largely traded exclusively in the context of the single market and have no previous experience in complying with provisions related to FTA's. That these processes are burdensome is clearly illustrated by trade flows between the EU and Switzerland. For 23% of trade between the EU and Switzerland no preferential treatment was obtained in 2018⁵; businesses decided that the administrative compliance cost surpassed the cost of tariffs.

RoO compliance traditionally proves the most challenging part of customs procedures. Complying with RoO means that a business needs to understand the entire supply chain of their goods and track where, what value is added. They need to know how their suppliers process their goods and are liable for the calculations made by their suppliers. Importantly, this requires ongoing effort. **Any changes in pricing, margins or processing method may impact RoO.**

A phasing-in period of at least nine years should therefore be agreed. The value-added rule should be gradually phased in during a nine-year timeline, as is common for liberalisation schedules in recent FTA's, including the FTA with Mercosur.

For electric vehicles and related parts, including Li-ion batteries, lower thresholds or longer schedules should be considered.

For at least the first five to six years (model cycle), self-declaration with an absolute minimum of documentation requirements should apply. Additional documentation requirements could gradually be phased in. It is critical to allow customs authorities and companies sufficient transition time to conduct authorisation, considering procedures may take three months or longer, depending on the national customs authority. At least for the first year, **importers and exporters should be allowed to file retrospective preferential origin declarations without the need to pay tariffs in the first place.**

Furthermore, an extension of the currently applying transition period should be considered to bridge additional negotiation time required to carve out technical details on regulatory alignment and alternative custom procedures that allow for an ambitious and comprehensive FTA. A basic FTA that does not sufficiently address regulatory alignment, market access and customs procedures would lead to significant disruption and damage to the competitiveness of European industry.

⁵ DG Trade's 2019 Report on Implementation of EU Free Trade Agreements

6. Continued collaboration and access to talent

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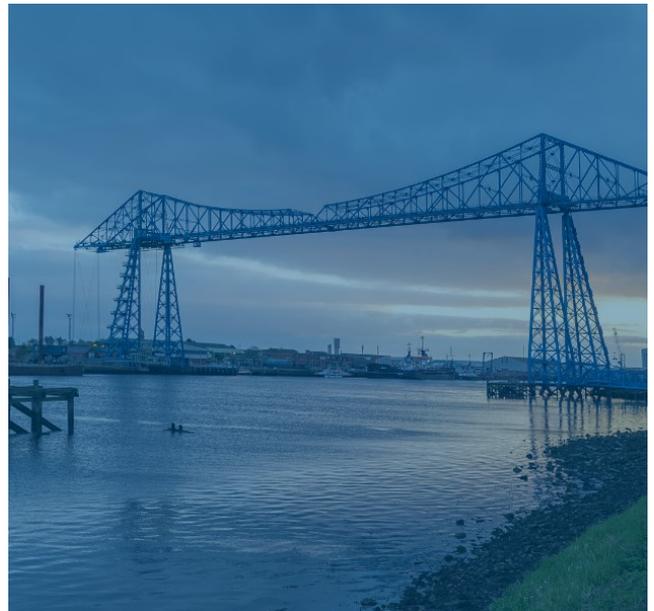
The automotive industry and the wider mobility landscape in which it operates are in the midst of an existential technological transformation, requiring significant investments in research & development. Scale and competition under stable and fair conditions will be a critical factor to the industry's ability to deliver on safety and environmental goals and rising expectations of customers.

Collaboration between the EU and the UK on shared priorities including emissions, renewable energy, and connected and automated driving should therefore continue, with the UK seen as a strategic partner rather than a challenger or threat. Continued collaboration on the regulatory framework and EU funded projects should be supported by UK funding and allow participation of UK-based businesses.

Automotive companies must continue to have access to the pool of talent in the EU and UK to maintain competitiveness

Automotive companies must continue to have access to the pool of talent in the EU and UK to maintain competitiveness, meet their skills needs and foster economic growth and innovation. Therefore, we encourage efforts to maintain the free mobility of labour between the EU and UK.

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While the existing repair and maintenance market in Europe is well known, with a total value of 240 bn EUR by serving around 400 million vehicles of all types and employing about 4 million people, the potential market size for new mobility services is not yet known.

Automotive suppliers based in the EU export annually up to €10 billion worth of automotive parts to the United Kingdom and import up to €4 billion⁶. Furthermore, the UK's automotive industry fulfils a pivotal role as European export hub for the European automotive sector.

**45,000 European jobs
directly at risk in the EU automotive
sector if the EU and UK fail to reach a
comprehensive agreement**

UK-based automotive manufacturers export €17 billion worth of vehicles and engines to the Americas, Middle East and Asia, **triggering an estimated €3 billion worth of imports** in auto parts from the EU to the UK. Hence, a deal that harms the integrated EU-UK supply chain is a deal that would harm both the EU and the UK.

Similarly, the majority of engines and vehicles produced in the UK are exported to the EU, underlying the UK's strong interest to continue to have access to the European market and to remain aligned with European and international UNECE regulations.

Impact assessments foresee 45,000 European jobs directly at risk in the EU automotive sector if the EU and UK fail to reach a comprehensive agreement that protects the European automotive supply chain⁷.

In the UK a significant share of the 168,000 jobs in the automotive industry⁸ will be at risk and investments are already highly impacted by fears of a damaging outcome of negotiations. Investments in the automotive industry in the UK have shown a consistent decline, with 2018 and 2019 showing the lowest investment in 12 years⁹.

⁶Eurostat data for 2018, 8708

⁷KU Leuven, June 2019

⁸SMMT's 2019 Automotive Trade Report

⁹FDI Markets

CLEPA, the European Association of Automotive Suppliers, represents over 3.000 companies supplying state-of-the-art components and innovative technologies for safe, smart and sustainable mobility.

CLEPA brings together over 120 global suppliers of car parts, systems and modules and more than 20 national trade associations and European sector associations. CLEPA is the voice of the EU automotive supplier industry linking the sector to policy makers.

- The automotive sector accounts for **30% of R&D** in the EU, making it the number one investor.
- European automotive suppliers invest over **25 billion euros** yearly in research and development.
- Automotive suppliers register over **9,000 new patents** each year.
- Automotive suppliers in Europe generate **five million** direct and indirect jobs.

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