

## **SMMT RESPONSE TO BALANCE OF COMPETENCIES REVIEW OF TRADE AND INVESTMENT**

**6 AUGUST 2013**

### **Introduction**

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 a united position to government, stakeholders and the media. The automotive industry is a vital part of the UK economy accounting for £59 billion turnover and £12 billion value added. With more than 700,000 jobs dependent on the industry, it accounts for 10% of total UK exports and invests £1.7 billion each year in automotive R&D. The industry plays an important role in the UK's trade balance, with vehicle manufacturers exporting around 80% of production. Additionally, the UK is home to the world's largest number of specialist vehicle manufacturers and boasts global centres of design, R&D and engineering staffed by some of the industry's most highly skilled employees.

SMMT welcomes the opportunity to respond to the Department for Business, Innovation and Skill's Balance of Competencies Review on Trade and Investment. The automotive industry is global, exporting primarily to European markets and selling high value products into key markets across the world. Success for growth depends on active leadership by UK government in key decisions about the EU's political, economic and industrial future.

SMMT has called for government to pursue an industrial strategy that prioritises proactive UK engagement and leadership in the EU across all critical policy areas which pursue growth, innovation and employment, supporting stabilisation of the Eurozone and completion of the internal market. It is also vital that government ensures that UK positions on current trade negotiations and the development of EU free trade agreements reflect the UK's industrial priorities on growth in automotive, prioritising free and reciprocal market access and the abolition of non-tariff barriers (NTBs) to support UK export ambitions. The recently published, joint government and industry, sector strategy for automotive, recognises the importance of Europe to the sector.

### **Comments on trade**

SMMT recognises that one of the core competencies of the European Union is international trade. The ability for the EU to act as a bloc of 28 member states on trade issues is a key strength in opening up market access, leading the push for trade liberalisation on a global level, and pursuing principles of free and fair trade. The Single Market is also an important element of the EU's influence in trade negotiations. The attraction of access to the largest economic area in the world for third countries should enable the EU to negotiate favourable free trade terms. The UK automotive industry is integrated across Europe, and therefore the EU's competence on trade policy is of critical importance to ensure a level playing-field in terms of access to third country markets.

### **Attracting investment**

Another vital element of trade policy is the relationship to attracting foreign direct investment. UK government should ensure that the EU's trade and investment policies are aligned so that investors view the EU favourably through the trading opportunities the EU is pursuing, such as those through Free Trade Agreements.

### **Multi-lateral trade and the UK's role in the WTO**

While the focus for European trade policy is currently directed at pursuing bilateral Free Trade Agreements, efforts to increase multi-lateral trade should be encouraged. Though the Doha round of WTO trade talks have not produced an overall positive outcome in moving forward on the multi-lateral agenda, the initiatives being taken forward on issues such as trade facilitation are welcome and the UK has a strong role as a WTO member in making a success of these efforts.

SMMT and some of its members have recently raised an issue regarding Brazil's IPI tax and Brazil's tightening market access conditions. While UK government has been supportive of the concerns raised by UK automotive companies on this issue, it has been unable to act without building a coalition of other concerned member states. This is due to the European Commission being the authority to raise trade

complaints to the WTO. In this instance, although the move by Brazil is a violation of WTO rules, a coalition has been difficult to form and therefore the European Commission does not have enough of a constituency to make a formal complaint to the WTO.

### **Non-tariff barriers**

A common approach to regulation across the EU, particularly in the areas of technical legislation on issues such as environmental and safety standards is important in looking to tackle non-tariff barriers (NTBs) in third countries. In a heavily regulated industry such as automotive, the regulatory NTBs to trade are high. Automotive NTBs are significant in a number of third countries in which the European Commission is negotiating FTAs. UK government should liaise closely with industry to ensure that all relevant barriers to trade are removed before concluding the negotiations.

### **Economic analysis and impact assessments**

A key principle for SMMT is using sound economic analysis for determining which markets the EU should pursue trade agreements with. The role of UK government should be in advising and communicating its trade priorities to actors at a European level, based on a transparent method of economic assessment in determining key strategic trade partners. Within government's economic assessment of key trading partners, growth markets and sectors with comparative advantage, particular attention should be put on those markets where there is significant future potential to export.

Government must carry out a comprehensive assessment of the impact on automotive, and all sectors, before negotiations begin to identify potential economic imbalances. Such analysis should involve the participation of all industry players to harness further detail in terms of export data to support a comprehensive assessment. Ultimately, the opening of FTA negotiations should reflect genuine economic and market opportunities and align with both the European and UK ambitions for industrial growth. As UK government is not a party to negotiations, it is all the more of an imperative that as much background and preparatory work is undertaken to ensure business priorities are aligned with trade policy objectives. Industry knowledge and expertise of operating in international markets can inform government's strategy and should be used to enhance the UK's overall position on trade and investment.

SMMT believes more could be done by the European Commission to ensure that its impact assessments are as robust and comprehensive as possible. Where necessary the Commission should draw on member states' expertise and all industry players as a part of its economic data gathering to obtain a complete and balanced view.

### **Trade promotion**

In terms of trade promotion, SMMT considers that the balance of competency in this area is set at the right level where government through UKTI is pursuing investment opportunities and promotion reflecting national interests. UK automotive companies often compete for investment with other European countries where they may also have operations and manufacturing capabilities.

### **Implementation of trade agreements**

Trade negotiations are a key focus for the automotive industry, particularly following the Free Trade Agreement with South Korea where the industry felt that the agreement reached did not go far enough in ensuring free and fair access for the EU automotive industry to the South Korean market. The European Commission plays a crucial role in overseeing the implementation of free trade agreements, and the implementation of the South Korea FTA is a focus for the automotive sector. The competency of the Commission in implementation of FTAs is key as this ensures that concerns across Europe are dealt with on a robust basis. The Commission has consulted European businesses on issues regarding South Korea FTA implementation. UK government has also sought views from a UK perspective, which is also welcome.

### **Conclusion**

SMMT believes that the balance of competencies between the EU and UK on trade and investment is right. One of the EU's key roles is to enable and facilitate international trade and open up access to markets across the world. The UK has an important role in advising and working with the European Commission to inform negotiations and use political will to enhance free and fair trade. As the UK does not hold competency in negotiating trade agreements with third countries or economic blocs, it is imperative for the UK to be able to influence the Commission on UK priorities with a robust data and evidence base. UK government should work closely with industry in ensuring it has that evidence before and during negotiations.

### **Contact:**

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