



European
Automobile
Manufacturers
Association

ACEA Position Paper Brexit



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INTRODUCTION

Over the last decades, the 15 members of the European Automobile Manufacturers' Association (ACEA) have developed their business operations in the EU based on the arrangements of the European Single Market. This has enabled our industry to develop into a globally-competitive sector, making a significant contribution to the EU economy. Today, the EU and UK automotive industries are closely integrated from the economic, regulatory and technical points of view. The EU automotive sector provides jobs to 12.6 million Europeans and contributes 7% to the EU's GDP.

In 2017, the United Kingdom produced 1.75 million motor vehicles, exporting 800,000 of these within the European Union. The 27 other EU member states (EU27) produced 19.69 million motor vehicles and exported 2.3 million of these to the United Kingdom.

The European Single Market provides for a high level of economic and regulatory integration. This level of integration is reflected in how the automotive industry has strategically set up its business operations in terms of supply chains, production sites and distribution networks. Today, motor vehicle manufacturers operate almost 300 plants across the European continent, often manufacturing components such as engines in one country and assembling vehicles in another.

A prime example of this tight integration is the trade in automotive parts. In 2017, the UK imported 14.1 million auto parts and components, worth €11.4 billion, from the EU27 – representing 78.8% of the value of the UK's total part and accessory imports. At the same time, the United Kingdom exported 21.7 million auto parts and components to the EU27, with a total value of €4 billion (or 68.3% of the UK's global part and accessory exports value).

Any changes to the 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 and/or the UK, as well as on the European economy in general.

This paper will look at Brexit from the following viewpoints:

- The withdrawal agreement and the transitional arrangement;
- The framework for the future relationship;
- Key future relationship issues;
- The no-agreement 'cliff-edge' scenario.

I. REGARDING THE WITHDRAWAL AGREEMENT AND THE TRANSITIONAL ARRANGEMENT

It has been agreed by both parties that it will be necessary to have a 'transitional arrangement' to act as a bridge between Brexit and the conclusion of an agreement regarding the future relationship between the European Union and the United Kingdom. A time-limited prolongation of Union law to the UK will require existing regulatory, judiciary and enforcement instruments and structures to apply, while it maintains access to the Single Market and Customs Union. In this scenario essentially 'everything stays the same'. Any transitional arrangement should respect the principle that business must only have to adapt to Brexit once.

Withdrawal issue

- **Continuity of goods in the market after Brexit**

As an example, certificates that have been issued for goods placed on the market prior to Brexit should remain valid after that date. Without this legal continuity there would effectively be chaos in the market place. In this case, goods should be considered placed on the market only once and should be considered placed once they are completely manufactured and where a valid contract of sale exist at the time of Brexit for that individual vehicle. A contract of sale could be a business-to-business agreement.

Even in the event of a failure to conclude an orderly withdrawal of the UK from the EU, both parties should nevertheless confirm at the earliest possible opportunity that vehicles placed on the market prior to Brexit can continue to be made available on the market after that date and how that is to be made possible.

Transitional issues

- **Regulatory continuity during transition**

ACEA understands that, except for the political representation that the UK enjoyed during membership of the EU, all other aspects of the relationship will stay essentially the same during the transitional arrangement (TA). However, the absence of certainty in this regard is the cause of considerable concern. For example, a transitional arrangement means that the UK will continue to apply EU law in all aspects of conformity assessment. This should ensure that certificates (including new ones) issued by EU authorities will continue to be valid in the UK during this period and vice-versa, however there is currently no certainty in this regard. Furthermore, with regard to the free movement of labour, the European auto industry depends on flexible access to the EU28 labour market but the absence of certainty in this area (and in the area of citizen's rights) is already impacting operational flows and recruitment decisions.

ACEA looks forward to early confirmation of complete continuity during the transitional arrangement.

- **Duration**

With regard to the duration of the transitional arrangement, ACEA recognises that the EU27 have identified that 31 December 2020 should be the end date. However, should the UK choose not to remain within the Single Market and the Customs Union, then **ACEA is concerned that a 21-month transition is too short** for the following reasons:

- 1) It narrows the scope and the scale of the trade agreement that can be negotiated in such a timeframe;
- 2) It gives business an extremely limited period to adjust between the notification of the final deal and its implementation;
- 3) It reduces the time that customs authorities on both sides of the Channel will have to prepare and expand their human and physical resource capacity to deal with the massive increased volume of customs procedures.

Ultimately transition should last until any new trade agreement between the EU and the UK can come into force.

- **Trade agreements**

A key question that needs to be addressed by the UK, the EU27 and by third countries is whether to continue to extend the benefits of EU trade agreements to the UK during the TA, including the Customs Union agreement with Turkey. The high degree of integration between the EU and UK economies in the automotive sector makes such an extension vitally important. For example, an EU27 manufacturer who sources engine parts from the UK may no longer qualify for preferential benefits on its exports to trade agreement partners should such content no longer qualify as 'originating'.

ACEA requests that the EU and the UK agree to jointly seek the agreement of third countries to respect the trade agreements in the 'EU27 + 1' scenario that will exist during the TA.

II. REGARDING THE FRAMEWORK FOR THE FUTURE RELATIONSHIP

In April 2017¹ ACEA highlighted its priorities for the negotiations regarding the UK's withdrawal from the European Union. Key amongst these was the importance of the EU's Single Market for

¹ ACEA's first Position Paper on Brexit released 17 April 2017

trade in goods and services and of the free movement of capital, people and labour within it, as well as the importance of the EU regulatory framework.

In the automotive sector the EU applies tariffs of 10% for passenger cars, 10-22% for commercial vehicles, and 3-4% on average for parts and components. Not only does the UK's withdrawal from the EU risk the establishment of tariffs between the EU and the UK, but it will also require the creation of a customs border imposing formal import and export procedures in order to access the other party's market. Customs procedures will add significant cost to operations and endanger the just-in-time production systems employed by the auto industry.

As well as allowing for a very high degree of regulatory convergence, the Single Market has also allowed automobile manufacturers to rely on the free movement of people and labour, and unrestricted access to the skills of Europe's workforce. Furthermore, freedom of movement for capital and services has facilitated greatly how leasing and purchase financing can be offered to customers and the re-financing of subsidiaries located in a different market to the parent company.

Request: In the absence of a formal negotiating position from the British Government as to exactly what type of trading relationship it would like to have with the EU after Brexit, and given its immense benefit to business, trade and employment, ACEA calls on the UK Government to decide to remain part of the Single Market and the Customs Union. Failing that, a customs union agreement between the EU and the UK would provide for the next least disruptive alternative. Should none of these options prove possible then a deep and comprehensive trade agreement should be negotiated, taking into account the current depth and breadth of economic integration between the EU and the UK.

III. KEY FUTURE RELATIONSHIP ISSUES

With regard to the key regulatory issues of concern to ACEA, we would like to highlight the following issues, as well as ways to address them:

Type approval

European Community Whole Vehicle Type Approval is the certification by a member state's type approval authority (TAA) that a motor vehicle meets all relevant EU environmental, safety, performance and security standards. The recipient of an Approval Certificate can use it to market that type of vehicle throughout the European Union, without requiring further certification or approval procedures in any EU member state. Approval authorities are also responsible for ensuring a manufacturers' ability to achieve Conformity of Production, which is an integral part of the approval process. Essentially, this involves the evaluation by the approval authority and/or its technical services that the manufacturer has the capacity to ensure that each product is

manufactured in accordance with the approved specification.

The type approval process usually takes 6 to 12 months and costs approximately €450,000 to €600,000 for a whole vehicle to be approved for the first time. Typically, an automotive manufacturer might work with one (or perhaps more) approval authority, even if their vehicles are not produced in the country where that authority is notified. This is because a relationship between a manufacturer and an approval authority is built up over many years. The authorities become familiar with the systems and components of the brand and the certification process is streamlined in that regard.

ACEA proposes, post Brexit, that 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 UK or the EU27. This has a precedent in the existing agreement between the EU and Switzerland, which requires continued regulatory alignment.

Notwithstanding this request, a major concern of manufacturers is that in its Notice to Stakeholders of 8 February regarding 'Rules in the Field of Type Approval of Motor Vehicles' the European Commission stated, with regard to type approvals granted by the UK authority prior to the withdrawal date, that "the Commission is considering the necessary and appropriate steps to ensure and facilitate continued compliance with EU law." This provides no security for economic operators that 1) goods legally placed on the market prior to Brexit can continue to be legally used by consumers after Brexit, and that 2) (should it be necessary for an EU27 TAA to grant an approval) this notice provides no clarity whether solutions such as the transfer of certificates from one TAA to another will be possible, let alone any clarity as to how such procedures will take place. It should be noted that it is not possible for a manufacturer to hold approvals for the same type of motor vehicle from two or more separate authorities at the same time. Clearly, the same major uncertainty exists for the legality of approvals by EU27 authorities in the UK market.

Furthermore, only the issuing authority is permitted to extend or amend existing approvals in the EU. If the UK approval authority is not permitted to extend existing approvals, then a simple mechanism should be provided to transfer existing approvals without the need for renewed or additional tests. In particular, the date of issuance of the original UK approval should be included in the transfer as well. This is necessary to ensure that the legal requirements applicable to that vehicle at the time of its last approval are the ones that still apply after the transfer is completed.

Requests:

- 1) ACEA members need to have immediate clarity on how they can transfer existing approvals from an EU27 authority to the UK and vice-versa, based on the legal requirements in force at the time of the most recent approval for the concerned type.**
- 2) After Brexit, in order to avoid unnecessary duplication, both parties should mutually**

recognise reports, certificates and authorisations issued by the conformity assessment bodies of either the UK or the EU27.

- 3) **Legislative compatibility is a prerequisite for mutual recognition. In order to facilitate this, the UK needs to transpose all relevant regulation into its national law and maintain harmonisation in the future.**

CO₂ emissions

EU legislation sets mandatory CO₂ emission reduction targets for new passenger cars and light commercial vehicles. A fleet average for all new cars of 95 grams of CO₂ per kilometre should be reached by 2021. The 2021 target for light commercial vehicles (LCVs) is 147 g CO₂/km. The penalty for excess emissions will be €95 for each and every gram of exceedance, both for cars and LCVs. Calculation of fleet averages is made on either a brand or group basis from registration data of new passenger cars and LCVs from all EU28 countries. Vehicles below a certain threshold for low- and zero-emission vehicles benefit from a system of super-credits which allows manufacturers to offset negative credits from higher emission vehicles. These credits will be phased out in 2023.

Once the UK leaves the EU it will no longer be subject to the emission requirements of the Union. In theory, the requirement to include UK data in fleet-average calculations will also expire. Compliance with the highly challenging limits set by the European Union for 2021 has been based on data from all member states and the potential exclusion of one of these countries at this late stage will have a significant impact on those carefully planned strategies.

In particular, UK data is valuable to manufacturers because of the high proportion of alternatively-powered vehicles registered there. In 2016 the UK accounted for 16% of battery-electric vehicles and 31% of all plug-in vehicles sold in the EU. The removal of UK data from the calculation will force manufacturers to recalculate long-held fleet average targets based on EU28 data and allow very limited time in which to alter compliance strategies to ensure that highly demanding 2021 targets can be reached.

Requests:

- 1) **ACEA's priority is to keep the system as it is today and allow overall CO₂ fleet compliance based on CO₂ monitoring data from the EU-27 plus the UK (and other non-EU countries that will be part of the system).**
- 2) **While ACEA maintains that there are good reasons to maintain use of UK data in the short to medium term (until at least 2023), should the European Commission exclude this data from fleet-average calculations, then the Commission must review the target of 95g CO₂/km for passenger cars. This figure was established using input from the UK and its exclusion will have consequences that must be addressed in the target set for manufacturers.**

Pollutant emissions

European emission standards (nominally referred to as 'Euro standards') define the acceptable limits for exhaust pollutants like nitrogen oxides (NO_x), hydrocarbons (HC), carbon monoxide (CO), particulate matter (PM) and ultra-fine particles (PN) for new motor vehicles sold in EU and EEA member states. The emission standards and their related testing procedures are defined in a series of European Union and UN ECE regulations. Compliance is determined by running the complete vehicle (or heavy-duty engine) over a standardised test cycle in a laboratory which is supplemented by emission testing of the vehicle on the road.

The UK leaving the EU in March 2019 will have consequences, particularly for the UK which will have to face significant choices as it adopts its own regulatory framework in this area. Regulatory divergence would significantly hamper continued trade between the two parties. The automotive industry is clear in its desire to avoid this and to ensure, to the greatest extent possible, that regulatory continuity be maintained for emission standards, testing procedures and for type approval in respect of pollutant emissions and CO₂/fuel consumption.

Requests: To ensure continuity and harmonisation of regulatory standards across the EU-UK trading partnership, the UK should adopt in its own domestic regulation and continue to apply:

- 1) **Regulation (EC) No 715/2007 on type approval of motor vehicles with respect to emissions from light passenger and commercial vehicles (Euro 5 and Euro 6) and on access to vehicle repair and maintenance information.**
- 2) **Regulation (EC) No 595/2009 on type approval of motor vehicles and engines with respect to emissions from heavy-duty vehicles (Euro VI), and on access to vehicle repair and maintenance information.**
- 3) **To ensure continuity and harmonisation of testing standards across the EU-UK trading partnership, the UK should adopt and apply WLTP and RDE (Regulation 2017/1151) as they exist in EU legislation today. When those standards are amended by the EU (eg for post-2021 CO₂ targets), then the UK should maintain complete regulatory alignment by updating its domestic legislation to incorporate these changes.**

REACH – Chemical regulation

The EU's REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) Regulation aims to improve the protection of human health and the environment from the risks that can be posed by chemicals. It places the burden of proof of regulatory compliance on to the economic operators who import or manufacture these substances. They have to demonstrate to the European Chemicals Agency (ECHA) how the substance can be safely used and must communicate the risk management measures to users. REACH also establishes procedures for collecting and assessing

information on the properties and hazards of substances through registration procedures entered into by the economic operator. The ECHA receives and evaluates individual registrations for legal compliance and, where necessary, EU member state authorities can evaluate selected substances for health or environmental reasons. They can also decide to restrict use or make it subject to a prior authorisation.

The UK leaving the EU in March 2019 will have consequences for economic operators responsible for the registration of chemical substances traded in both the EU27 and in the UK. Regulatory divergence would significantly hamper continued trade between the two parties and the automotive industry needs to avoid this and to ensure, to the greatest extent possible, that regulatory continuity be maintained. Again, the UK will have to face significant choices as it adopts its own regulatory framework in this area.

Should the UK seek to copy the ECHA registration and authorisation process it will, for many traders, require them to effectively duplicate the process, once for the UK and then again for the EU. This significant additional burden would provide no added value. The economic impact of regulatory divergence and the unnecessary duplication of effort can be avoided through continued UK replication and application of all EU REACH decisions.

Requests:

- 1) The UK should adopt and continue to apply all REACH relevant legislation in its own national law.**
- 2) The UK should follow decisions on substance evaluations and subsequent authorisations or restrictions to avoid supply chain disruption and potential barriers to trade. Similar approaches should be followed with regard to other EU chemical regulations (eg Biocidal Products Regulation, the Classification, Labelling and Packaging Regulation, etc).**

Customs

The UK deciding to remain in a customs union with the EU would be an effective solution in aiding the trade in goods between the EU and the UK. Nevertheless, there would still be significant logistical burden that would have to be administered. At this moment in time, and in the absence of any clarity from the UK Government on its intentions, the list of potential customs related issues is too numerous to be addressed in this paper. However, there are some key principles which can already be established and will apply regardless of which Brexit scenario is pursued.

- **Customs resources**

A highly significant reinforcement of customs capacity will be needed in order to enable authorities on both sides of the Channel to handle the inevitable and sudden massive increase in customs

procedures, checks, etc. Both EU and UK authorities need to start planning for these eventualities now in order to avoid potentially severe and costly port congestion issues once the UK leaves the EU.

- **Regulatory convergence**

At the time of Brexit UK customs law will remain aligned with that of the Union Customs Code. However, cross-channel trade needs that convergence to be as complete and continuous as possible over the long term in order to minimise the impact of withdrawal on trade.

- **Customs facilitation**

The automotive industry is heavily reliant on supply chains based on just-in-time and just-in-sequence deliveries. To maintain these industry standard supply chain procedures and to avoid any assembly line stoppages it will be necessary for manufacturers and suppliers on both sides to be able to simplify customs clearance procedures. By implementing a simplified model for customs clearance in the way of a self-assessment scheme, accompanied by the acceptance of the customs authorities for the exchange of customs relevant information electronically, the existing invisible border between the EU and the UK can be maintained for some operators. Applying such simplifications to mutually-recognised Authorised Economic Operators (AEOs) would be helpful to ACEA members but would exclude many automotive suppliers who do not possess this status. In their negotiations, 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.

IV. NO-AGREEMENT SCENARIO

The 'cliff-edge' scenario must be avoided at all costs. In a worst-case scenario, even the legality of cars already placed on the market in the EU and in the UK may not be resolved.

The imposition of 10% duties for passenger cars and 10-22% for commercial vehicles will have a highly significant negative impact on both ACEA's members and consumers throughout Europe. Furthermore, the imposition of 3-5% duties on the import of parts and components for use in automobile production will further raise the cost of doing business and impact retail prices of automobiles for consumers.

In 2017 the value of passenger cars made in the EU27 and sold in the UK was €33.2 billion, and €13.9 billion worth of cars made in the UK were sold in the EU27. These figures cover the sales of almost 3 million cars in total. To give an idea of the potential duty impact alone, should 10% duties apply on these sales, it would add close to an extra €5 billion bill to the cost of doing cross-channel business.

For commercial vehicles the value of trade in 2017 was €5.2 billion (EU27 sales in UK) and €546



million (UK sales in EU27). Here tariff peaks of up to 22% would have an even greater financial impact.

The trade in automotive parts and components would also be severely impacted. The highly integrated supply chain of the auto sector can see parts and components travel back and forth across the channel several times before final installation in an automobile. Managing supply chain logistics will be a significant burden.

It should be underlined that the potential for a no-agreement scenario to have much graver implications than on an import duty level lies in the inherent threat that the introduction of import and export procedures overnight will lead to delays at customs and, ultimately, to the stoppage of assembly lines. This scenario could have grave implications for the profitability of businesses in a key sector of the EU and UK economies and all that that could entail vis-à-vis profitability, employment, etc.



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ABOUT ACEA

- ACEA represents the 15 Europe-based car, van, truck and bus manufacturers: BMW Group, DAF Trucks, Daimler, Fiat Chrysler Automobiles, Ford of Europe, Honda Motor Europe, Hyundai Motor Europe, Iveco, Jaguar Land Rover, PSA Group, Renault Group, Toyota Motor Europe, Volkswagen Group, Volvo Cars, and Volvo Group.
- More information can be found on www.acea.be or [@ACEA_eu](https://twitter.com/ACEA_eu).

ABOUT THE EU AUTOMOBILE INDUSTRY

- 12.6 million people – or 5.7% of the EU employed population – work in the sector.
- The 3.3 million jobs in automotive manufacturing represent almost 11% of EU manufacturing employment.
- Motor vehicles account for almost €396 billion in tax contributions in the EU15.
- The sector is also a key driver of knowledge and innovation, representing Europe's largest private contributor to R&D, with more than €50 billion invested annually.
- The automobile industry generates a trade surplus of about €90 billion for the EU.