European
Automobile
Manufacturers
Association

ACEA Position Paper

Brexit

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KEY MESSAGES

a. The automotive industry is tightly integrated across the European Union and the United Kingdom from the economic, regulatory and technical points of view.
b. The automotive industry contributes significantly to economic growth and employment both in the EU and the UK, accounting for 6.5% of EU GDP.
c. Brexit-related changes to the existing European Single Market will have a negative impact on the competitiveness of both EU and UK industries, as well as for the economy at large.
d. Acknowledging the utmost importance of the European Union and the European Single Market, ACEA believes these achievements must not be put in danger.

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, the main pillars of which are the so-called 'Four Freedoms' (ie the free movement of goods, capital, services and people). 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. Together, they provide jobs to 12.2 million Europeans across the value chain, and contribute 6.5% to the EU's GDP.

In 2016, the United Kingdom produced 1.8 million motor vehicles. The 27 other EU member states (EU27) exported 2.4 million vehicles to the United Kingdom last year, while the UK exported more than 900,000 vehicles to the EU27. Currently, the EU27 represent 81% of UK motor vehicle import volumes (worth €44.7 billion) and 52.8% of UK export volumes (worth €14.6 billion).

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, vehicle manufacturers operate almost 300 plants across the continent, often manufacturing components such as engines in one country and assembling vehicles in another. Such integrated business models would not be possible without the four freedoms of the Single Market.

A prime example of this tight integration, is the purchase of parts. In 2016, the UK imported

14.1 million auto parts and components, worth €11.6 billion, from the EU27 – representing 80% of the value of the UK's total part and accessory imports. At the same time, the United Kingdom exported 21.6 million auto parts and components to the EU27, with a total value of €3.9 billion (or 70% 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 would most certainly 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.

ACEA takes note of the results of the June 2016 referendum, during which British citizens expressed their intention to leave the EU. The concrete implications of the referendum for Europe's automobile manufacturers remain difficult to assess, as they depend on the outcome of future negotiations between the EU27 and the United Kingdom. Given the current state of uncertainty, ACEA would like to highlight its main concerns about possible changes to current relations between the parties. In this paper, we focus on three priority areas:

- Access to each other's markets;
- The EU-UK regulatory framework;
- UK access to third-country markets.

At the same time, ACEA would like to reiterate the European automobile industry's continued support for the EU project. The EU's achievements over sixty years of European integration have been of great benefit to the automobile sector as well as to our customers. Under no circumstances should Brexit jeopardise these accomplishments.

1. ACCESS TO EACH OTHER'S MARKETS

The European Single Market enables the free movement of goods, capital, services and people – all key to growth and competitiveness. ACEA members have set up their business operations accordingly. Any changes to the existing arrangements will have a significant impact on the competitiveness of EU and UK production locations alike.

1.1 Movement of goods

Goods traded between the EU27 and the United Kingdom currently enjoy tariff-free treatment, provided that they are in free circulation in the Single Market. This system ensures smooth trade flows, allowing for a high level of economic integration between the EU and British automotive industries. Today's supply chains are highly complex, spanning right across Europe.

Any changes to the current system would impose significant burdens and costs on auto manufacturers and other players within the supply chain:

- If the UK leaves the Single Market without any measures being put in place to replace the current system, the free circulation and tariff-free flow of goods between the EU27 and United Kingdom will no longer be guaranteed.
- This could result in the introduction of automotive tariffs of 10% for passenger cars, 10-22% for commercial vehicles, and 3-4% on average for parts and components – assuming that the UK would introduce the same most favoured nation (MFN) tariffs as currently applied by the EU.
- Setting up customs borders between the EU27 and the UK would also require formal import and export procedures in order to access the other party's market. Custom procedures would add significant costs to operations. In addition, such procedures would put the British customs system under significant pressure, with the risk of port congestion endangering the just-in-time production systems employed by the auto industry.
- Increased bureaucracy would result in longer lead times and higher costs for economic operators, their customers and authorities.

1.2 Movement of capital and services

The implications of Brexit for financial markets are also relevant to automobile manufacturers, because vehicle sales are often linked to services such as leasing and financing. Financial institutions have developed their intra-EU operations based on the 'e-passporting' system, which allows a company registered in the European Economic Area (EEA) to do business in any other EEA state. Failure to reach agreement on e-passporting would harm the European financial sector and prevent consumers from having the greatest possible choice of financial services.

1.3 Movement of people and access to skills

Automobile manufacturers rely on the free movement of people for an unrestricted access to the skills of Europe's workforce. They need to be able to freely deploy employees to various locations in different countries without any bureaucratic obstacles. This also requires an efficient and flexible labour market. Any changes to the current system would have a negative impact on the efficiency and competitiveness of our industry as well as on automotive employment in Europe.

2. THE EU-UK REGULATORY FRAMEWORK

The EU's current regulatory framework provides common legislation for the EU27 and the UK in a wide number of areas that are relevant to the European auto industry. For example, legislation relating to emissions (CO_2 and pollutants), vehicle and road safety standards, the sale of automotive products and their distribution (eg the Block Exemption Regulation), data protection, and the protection of intellectual property.

2.1 Type approval

Currently, the UK type-approval authority (VCA) checks a significant percentage of motor vehicles before they are placed on the EU market to ensure they meet relevant environmental, safety and security standards. The UK's departure from the European Single Market could result in the EU Regulation on type approval no longer applying to the United Kingdom. Potentially, this means that type-approval certificates issued by the VCA may no longer be valid in the EU27. Such a situation would affect both vehicle manufacturers and customers, and hence needs to be avoided.

2.2 UN regulations

After the United Kingdom's departure from the Single Market, it is essential that no regulatory barriers are introduced, as this would lead to additional costs and hamper the industry's competitiveness. Regulatory divergence and uncertainty in the legal framework would give rise to non-tariff barriers (NTBs).

In addition, with regard to the influence of the EU on the international regulatory system of the United Nations in Geneva, it should be understood that the current EU regulatory framework is beneficial to the automotive industry. UN vehicle-related technical regulations are widespread at the global level and are increasingly adopted by other non-EU countries (eg the 1958 and 1998 Agreements). Any future divergence between UK and EU/UN regulations would slow this process down, resulting in further regulatory discrepancies and NTBs at the global level.

2.3 Research and development

The European automobile industry invests €44.7 billion in R&D annually, representing about 5% of its total turnover. At the moment, the United Kingdom takes part in European research programmes, such as Horizon 2020. The UK's participation facilitates cross-border R&D cooperation for the automotive sector, which is of key importance to innovation in this digital age. Given the magnitude of these investments, any changes to the current situation will have a detrimental impact.

3. UK ACCESS TO THIRD-COUNTRY MARKETS

European automobile manufacturers are global players, relying significantly on vehicle exports. In 2015, exports of motor vehicles from the EU to third countries amounted to almost €140 billion. The various comprehensive free trade agreements (FTAs) that the EU has concluded, or is currently negotiating with third countries, provide a solid framework for international trade to ACEA members. The integrated EU27-UK supply chain enables a high level of local content to be used in vehicle production, allowing manufacturers to export their products at preferential tariffs to third countries with which the EU has concluded an FTA.

Once the UK has left the European Union, it would no longer benefit from these FTAs – requiring the UK to negotiate separate trade agreements.

CONCLUSION – RESOLVING UNCERTAINTY

The outcome of the Brexit referendum leads to increased uncertainty for Europe's automotive industry. Auto manufacturers usually operate in four to seven-year product cycles, which requires long-term business planning. That is why a stable legal and regulatory framework is imperative to taking decisions on future investments and production in the industry.

Now that Article 50 has been effectively triggered, it is key for our industry that uncertainty is properly addressed during the negotiations by the parties involved. A comprehensive and timely arrangement could avoid a Brexit 'cliff edge', bridging the gap between the UK's withdrawal from the EU and the entry into force of a new EU27-UK trade agreement.

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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, Hyundai Motor Europe, Iveco, Jaguar Land Rover, Opel Group, 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.

ABOUT THE EU AUTOMOBILE INDUSTRY

- 12.2 million people - or 5.6% of the EU employed population - work in the sector.
- The 3.1 million jobs in automotive manufacturing represent 10.4% of EU manufacturing employment.
- Motor vehicles account for over €400 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 €44.7 billion invested annually.
- The automobile industry generates a trade surplus of €100.4 billion for the EU.

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