

Manufacturing update 16: Getting 'the best' trade deal with Europe is essential!



Following the UK formally leaving the European Union (EU) at the end of January 2020 we entered into a 12 month 'transition period' during which the UK government and EU negotiators had the opportunity to conclude a new trading relationship based on common objectives of mutual benefit. Throughout this twelve-month transition existing rules governing trade have remained in place, essentially this provided for our continued membership of the European single market and customs union, meaning an unrestricted open market remains in place for UK and EU goods and services.

With this coming to an end on 31st December 2020, the outcome of negotiations on its replacement are critical to UK manufacturers; whether importing components, services or raw materials from the EU or exporting those same products and services - including finished products, from UK plants to the EU. **Under current rules UK manufacturers enjoy an open market within the EU: no tariffs to be paid on goods, services or products traded within the single market, no quotas or customs red-tape and importantly, common standards to adhere to.**

- ⇒ *Common standards are important as this is what allows our products to be freely sold and traded within the single market and customs union. **Whether chemicals, additives, turbines, transmissions, aircraft wings or seating units, finished vehicles, paper products or steel, all can move freely across the EU without restriction or tariffs.** It's currently as easy to move product from Manchester to Milan as it is from Swansea to Glasgow.*

The decision of the UK government to leave the customs union and single market as part of its Brexit plan (which it did not have to do), means that **without a new agreement in place this tariff free, unrestricted movement will end on 31st December 2020** and our trade will from that point be based on global rules determined by the World Trade Organisation (WTO rules).

- ⇒ ***This matters given that the EU is our largest single trading partner with two thirds of manufacturing exports from Wales and the North East alone destined for European markets. In total. The EU was the destination for 43 percent of the UK's total exports in 2019 and represented 51 percent of our imports.***
- ⇒ ***EU trade totals some £615 billion with our next highest trading partner the United States at £182 billion followed by China at £67 billion and Japan at £27 billion¹.***

Our withdrawal from the EU customs union and single market also removes us from some 40 existing EU trade deals covering seventy 'third party' countries that together with the EU accounted for a total of 60 percent of total UK trade in 2018. These EU wide agreements cover trade between the EU and countries from Chile to Morocco and South Africa to Israel. **Agreements will need to be reached with each of these countries if we are to continue trading with them on current terms post 31st December.** The UK government is currently looking to negotiate 'roll over' agreements with these countries post 31st December. **To date the UK government has secured such 'roll over' agreements with just nineteen of the seventy countries, accounting for only 8 percent of UK trade based on those 2018 figures.**

- ⇒ *In addition, the UK government is looking to negotiate separate new trade deals with countries that do not have an EU wide trade agreement such as the United States, Australia and New Zealand. Where these negotiations end up is yet to be seen as these countries will not want to undermine negotiations on future trading arrangements with the larger EU group.*

With 60 percent of UK trade done either within the EU or with countries with which the EU has a trade agreement, it's clear that simply falling out of these agreements to trade on WTO rules will be devastating for UK manufacturers.

SO WHAT ARE WORLD TRADE ORGANISATION (WTO) RULES?

The World Trade Organisation sets global basic rules on trade between nations that do not have separate trade agreements between them. These basic rules set tariffs to be charged on imported goods between nations. **The idea is to create a level playing field for national producers, safeguarding against dumping of under-priced goods from overseas** and to allow nations to raise money from imported goods. The imposition of tariffs **necessitates administrative paperwork and associated customs checks**. It is this that is creating serious concerns over delays at UK ports, with the government proposing lorry 'passports' to enter Kent only with the correct paperwork in place and the building of huge lorry parks on routes to major UK ports.

- ⇒ The potential for **serious delays to 'just in time' production schedules** operating across much of the UKs advanced manufacturing sectors is already causing considerable concern to business with global corporations with a European wide plant footprint looking at future investment decisions on plant, tooling and new models/products.
- ⇒ **WTO rules will introduce tariffs on all goods exported from the UK not simply to the EU but to all countries where no trade agreement exists, including those 70 countries with which the EU has agreements that we currently benefit from; from ten percent on a finished vehicle and four and a half percent on vehicle components to 35 percent on some dairy products.**

WTO RULES AND THE AUTOMOTIVE SECTOR

- ⇒ *The UK automotive sector is export led. Eighty percent of finished vehicles are exported with 56 percent of this going to the European Union*
- ⇒ *Trading with the European Union on WTO terms would mean a ten percent tariff being applied to all finished vehicles and four and a half percent on components such as engines and transmissions.*
- ⇒ *Imported component content of a UK built vehicles averages some 75 percent.*
- ⇒ *With low margins on finished vehicles - three percent is not uncommon - there is no capacity to absorb the additional costs in manufacture*
- ⇒ *If the additional costs were to simply be added to the retail price of the vehicle the UKs competitive edge is completely wiped out.*

RULES OF ORIGIN AND CUMULATION

Quite apart from the issues surrounding tariffs, customs and delays within complex supply chains, the global nature of manufacturing means that even with an agreement on trade, recognition that component parts within a finished product will come from many geographical locations is essential. **Rules of Origin arrangements are in place to ensure that a product sold on the basis that it is UK made actually does come from the UK.** This is done by placing a minimum local content by value on the product. The rules are currently set at 60 percent by value. **This is a particularly important issue for the UK automotive sector:**

- ⇒ *For much of the UK auto industry where supply chain offshoring and overseas ownership often means components are shipped in from plants overseas, **the average UK content averages only 25 percent.***
- ⇒ *With **high value** components such as **engines, motors, transmissions, digital management systems and battery packs** often being imported, **agreement on Rules of Origin and cumulation is critical.***

A UK/EU agreement could see **EU manufactured components classified as UK content for the purposes of vehicles exported back to the EU**, while a **wider cumulation agreement** could see Japanese and other imported components from **countries with EU and UK trade agreements classified as local content** for the purposes of export from UK based plants.

WHAT ARE WE DOING AND WHAT CAN YOU DO?

We continue to work with our manufacturers and industry federations to argue the case with the UK government on the critical need for a good and fair trade deal with the European Union, alongside roll over agreements with associated countries. We also work very closely with our European partner unions, union federations and the European Trade Union Confederation to press the case in member states and within the European Commission.

We are asking that you discuss the issues around a fair trade agreement alongside the impact of WTO rules and Rules of Origin outlined in this briefing with your employers. It will all impact on in different ways on sub sectors of manufacturing so it's important we get a clear picture and represent you all in discussions with government. Please feed back to your national officers any details of your discussions you can alongside any detailed analysis of the impact on your company that may have been done.

REMEMBER

- ⇒ Without an agreement we return to WTO rules and the imposition of tariffs on exported goods **that will undermine the cost base of UK plants**. Given the integrated nature of manufacturing supply chains, if this was to happen to a major UK manufacturer **it could quickly undermine supply chains across the sector as a whole**.
- ⇒ **Meeting Rules of Origin requirements are key to determining access for products under any trade agreement**. Therefore reaching agreement on cumulation of EU and Non-EU components as local content is key.
- ⇒ We will of course always argue that **components should be manufactured here in the UK** and not simply imported from overseas, **especially those supporting the next generation of vehicles and the transition from combustion to hybrid and full electric technologies**.
- ⇒ **However**, we recognise that with sourcing decisions taken during the design stage of a new model – up to three years from production - and a model cycle lasting some seven years, **securing an adequate lead time to re-shore and develop key component manufacturing here in the UK is essential**. We will continue to press the UK government and EU on this

The clock is ticking on UK/EU negotiations and time is now limited to gain access to our local MPs but we urge you to do this wherever possible. **Help us make the case for a good deal; tariff free, frictionless trade and fair for working people**. Ensure they understand the impact of a bad or no deal with the EU and press home the need to address Rules of Origin and Cumulation as a central part of it. **Right now we have so many priorities and I understand that this is simply another, but I urge you to do what you can to raise these issues for jobs, skills, families and communities.**

In solidarity



Steve Turner

Assistant General Secretary