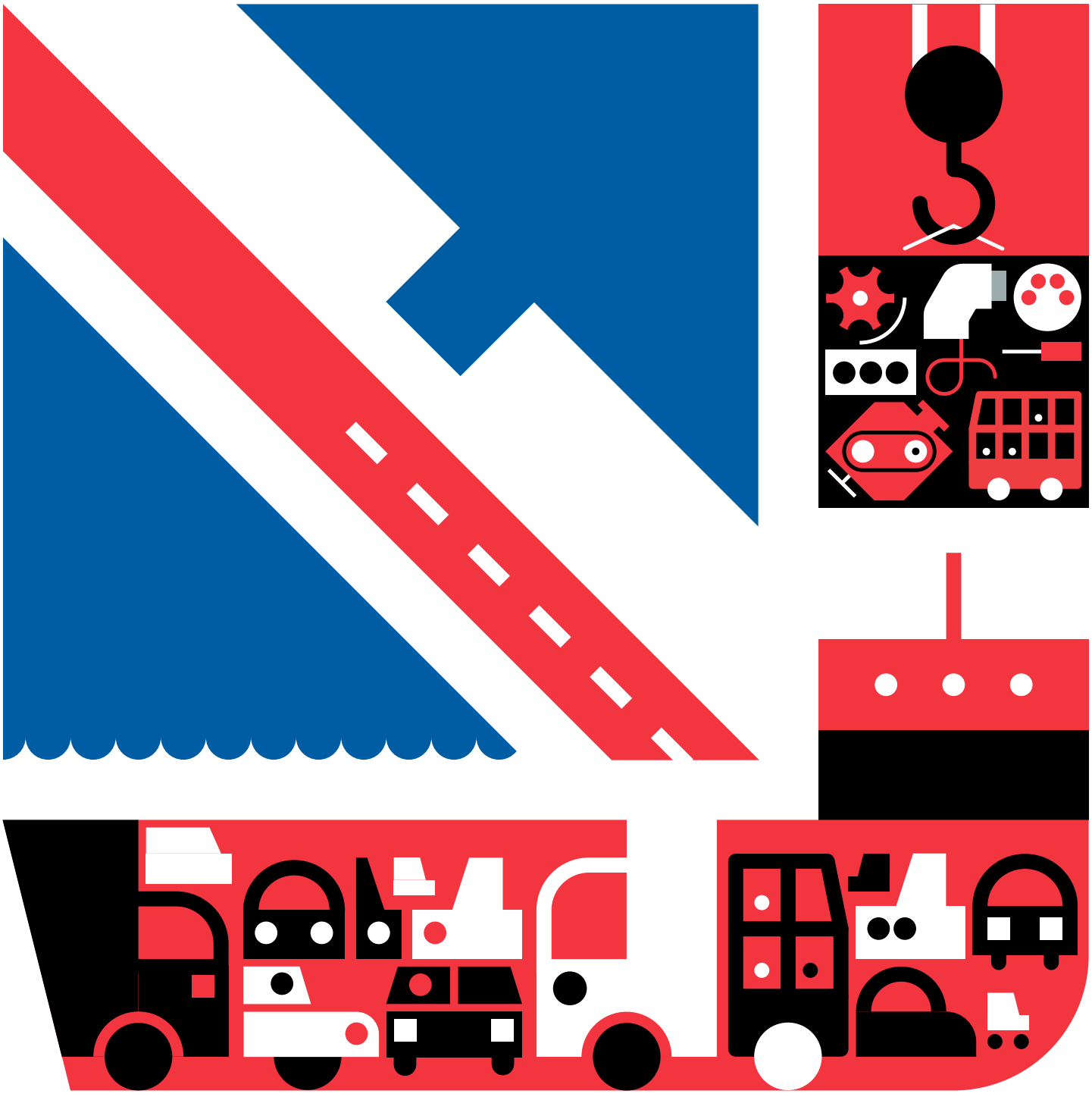
SMMT
DRIVING THE
MOTOR INDUSTRY

UNMARKED ROUTES: BRITAIN'S PATHWAY TO STRONGER AUTOMOTIVE TRADE

2025



"In the first half of 2025, UK shipments of motor vehicles and parts represented 12.6% of all British manufactured goods exported, the second most valuable commodity across all UK industrial products."

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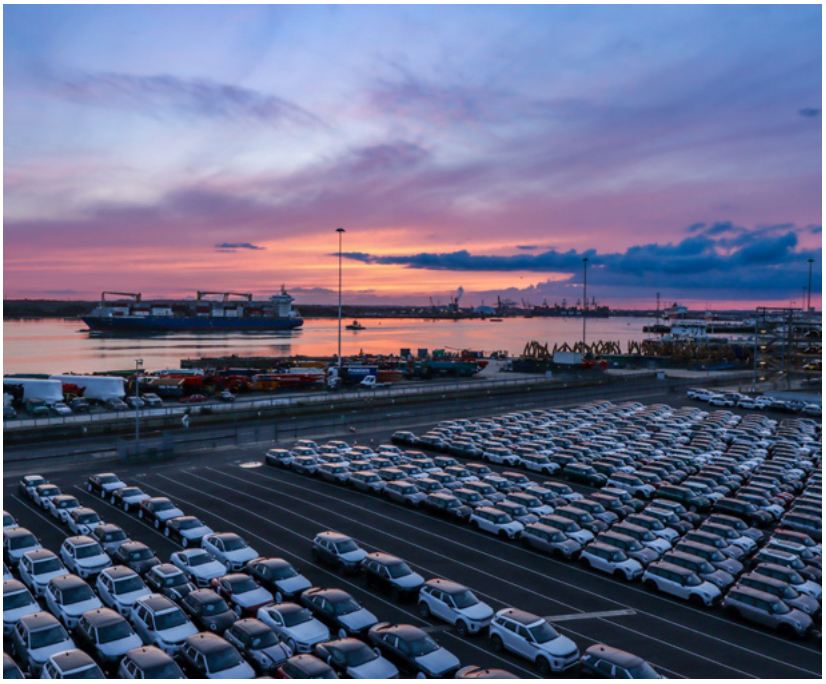


Mike Hawes
Chief Executive
The Society of Motor Manufacturers and Traders (SMMT)

FOREWORD

Five years on from Brexit – a seismic shock to the UK's global trading relationships of itself – and the UK automotive industry faces further global trade, political and economic challenges. Tariffs have upended the established order, competition is getting ever more fierce, the shift to electrification is far from smooth and geopolitical tensions are rising.

Throughout it all, the sector has shown remarkable resilience, generating £115 billion worth of trade in 2024 and is on track to remain above the £110 billion threshold for the third year running.

In the first half of 2025, UK shipments of motor vehicles and parts represented 12.6% of all British manufactured goods exported, the second most valuable commodity across all UK industrial products. These exports range from high-value, state-of-the-art vehicles to precision-engineered components and emerging mobility technologies, all produced by globally recognised and trusted brands.

While overall vehicle production volumes are down as the sector retools and restructures for an electric future, the UK remains a force in global automotive trade, exporting to all corners of the world. We remain open to imports and produce a diverse range of cars, vans, buses, trucks, taxis, and even specialist and off-road vehicles that are often world renown and increasingly utilising low and zero-emission technologies. Most of these products continue to be exported to global markets. It is why strong, fair, and open trade is essential—particularly with Europe.

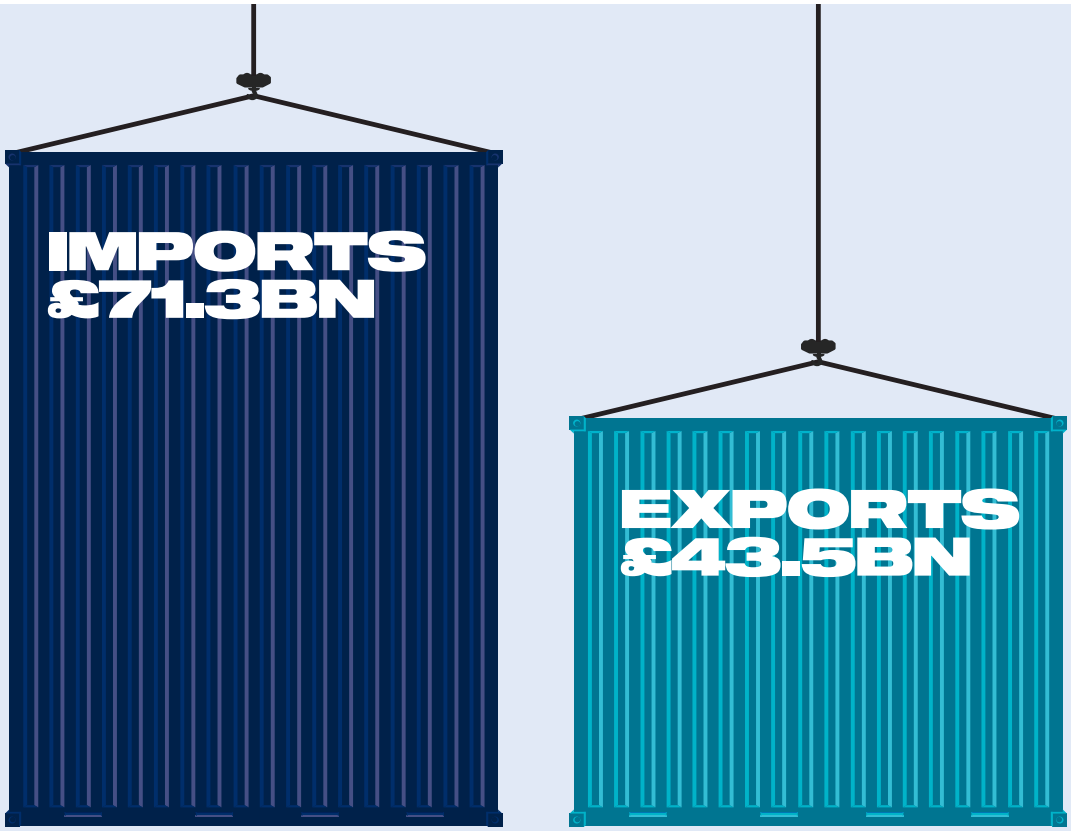
The EU remains the UK's largest trading partner, receiving more than half of all UK exported passenger cars and supplying seven-in-10 of the cars sold in the UK. Whilst recent deals with the US and India are critically important, maintaining a tariff free and, indeed, closer relationship with our EU partners must be a priority. This trade is increasingly driven by imports and exports of electric and hybrid vehicles – products greater in value than their combustion engine equivalents so particular attention must be given to ensuring this trade can grow in both directions.

To this end, ensuring practical rules of origin for EVs and related components – in particular monitoring compliance rates with 2027 UK-EU EV rules of origin, agreeing a workable definition for 2027 origin rules for cathode active materials, and fast-tracking negotiations to rejoin the Pan-Euro-Mediterranean (PEM) Convention would all help safeguard our EV trade across the Channel.

The UK has been successful in recent months, in securing trade partnerships and agreements with important markets. We have joined the CPTPP, signed an FTA with India and negotiated an advantageous deal with the US – the most important global market for many companies, notably our small volume, high value luxury and sports car manufacturers. We must capitalise on recent wins and implement the UK's recently launched Industrial and Trade Strategies to strengthen our domestic industry including battery and critical mineral supply chains. Support for remanufacturing and recycling must be expanded, and regulatory cooperation with key partners must be maintained to ensure UK manufacturers — large and small— remain competitive.

Navigating these trade complexities is challenging, but the rewards are significant: secure jobs, increased investment, and sustained economic growth across the UK. Embracing free and fair trade will enhance our global competitiveness, attract further investment, and accelerate the delivery of zero-emission vehicles to decarbonise road transport around the world.

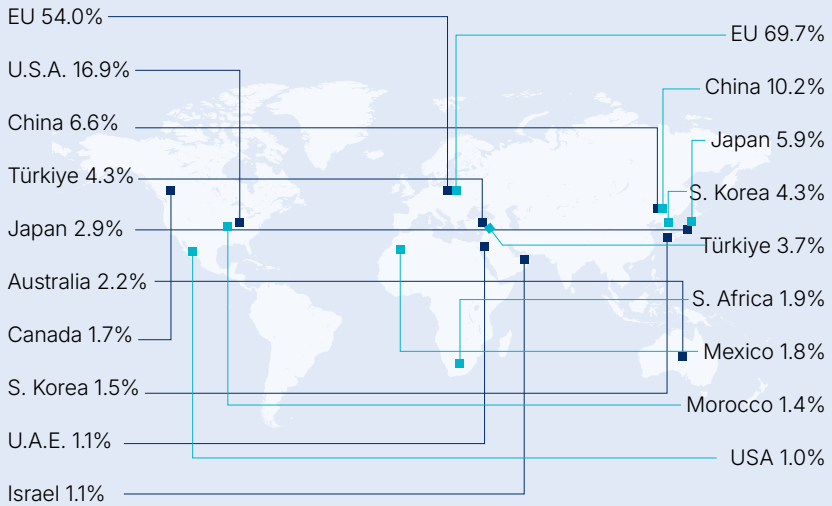
EXECUTIVE SUMMARY:
UK AUTOMOTIVE REMAINS A £115BN TRADING POWERHOUSE



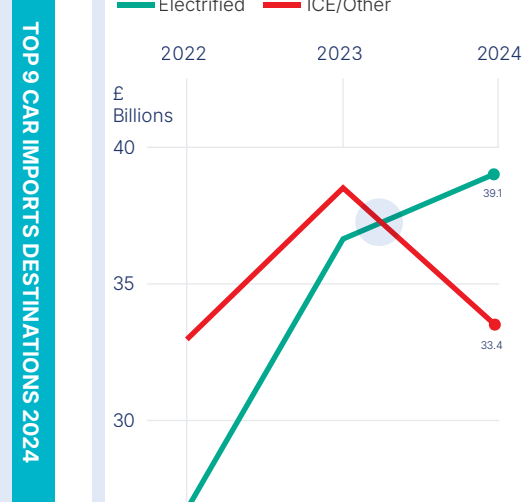
£114.8BN TOTAL

Source: ONS

TOP 10 CAR EXPORTS DESTINATIONS 2024



TOP 9 CAR IMPORTS DESTINATIONS 2024

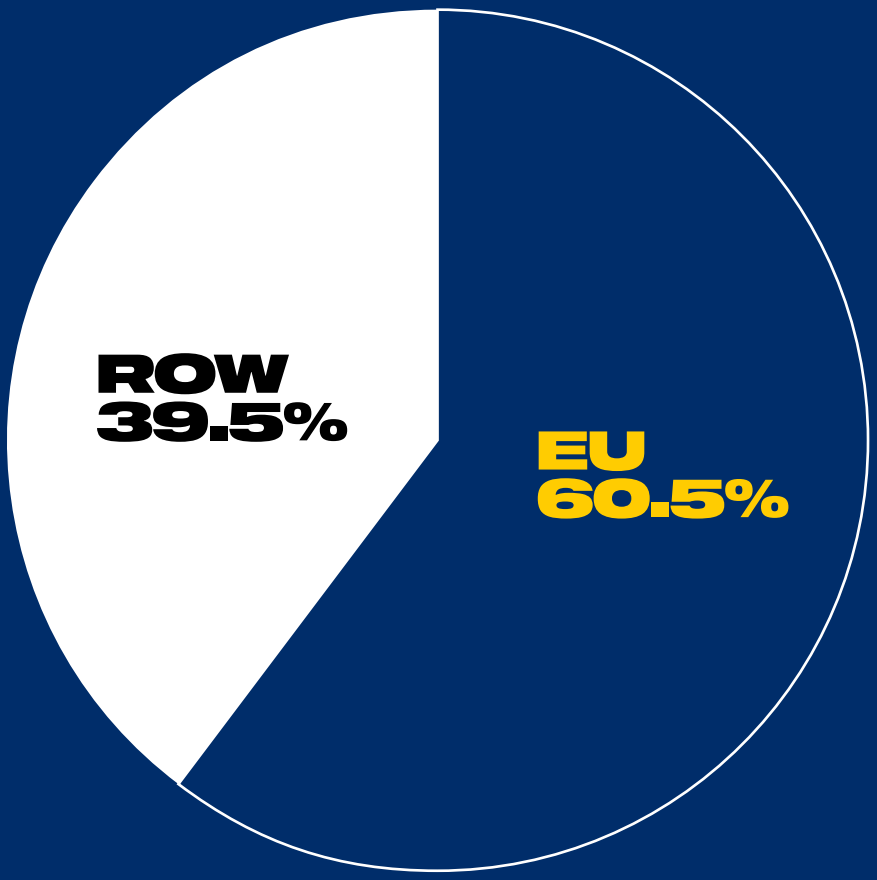


Source: SMMT

HISTORIC MILESTONE OF EV CARS TRADE OVERTAKING ICE TRADE BY VALUE

Source: HMRC

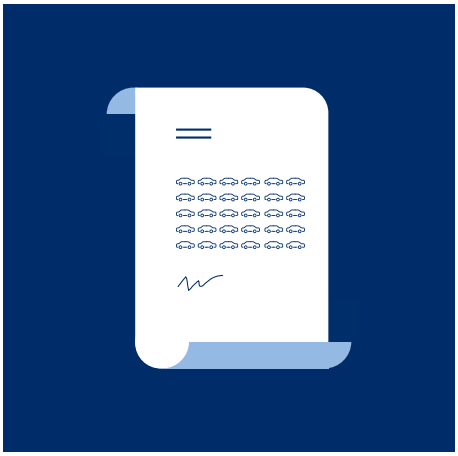
The EU represents by far the majority of all UK automotive global trade



Bilateral trade with the EU now driven by EVs both for imports and exports.

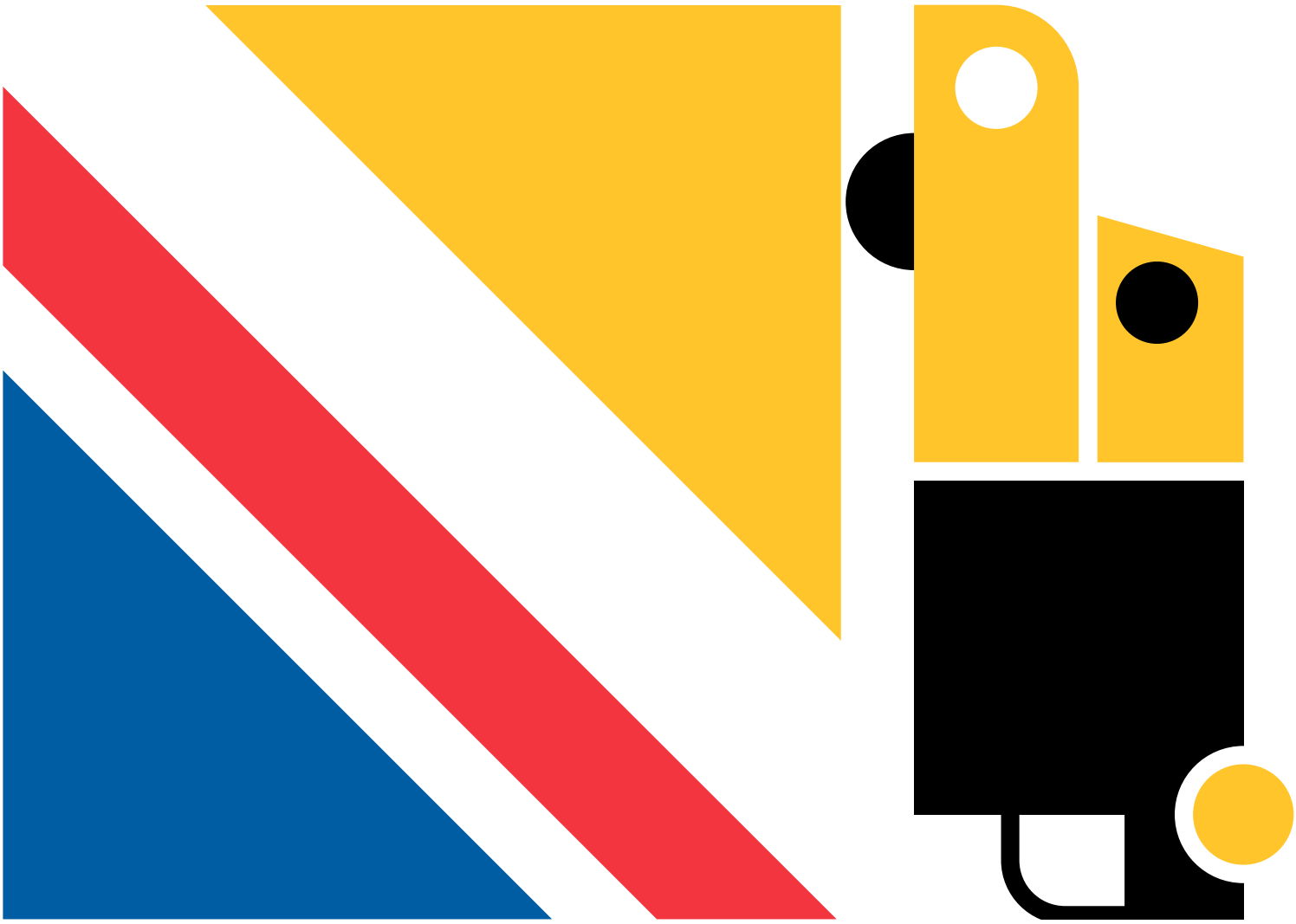
Source: ONS, for H1 2025 (RY)

RECOMMENDATIONS FOR GOVERNMENT AND INDUSTRY



CHAPTER 01

UK AUTOMOTIVE TRADE SNAPSHOT



- UK Automotive generated almost £115 billion worth of trade in 2024 and is firmly on track to remain above the £110 billion threshold amid the most challenging global trade environment in decades.
- At the height of the global tariff crisis, outbound shipments of motor vehicles and parts still represented 12.6% of all exports of UK manufactured goods, the second most valuable across all UK industrial products.
- As the industry invests to transform UK manufacturing facilities, overall trade performance has suffered from reduced domestic production of finished vehicles and mounting international trade tensions.
- While trade in engines remains resilient despite volume downturn, trade in typical parts shows signs of distress, with total value structurally below pre-Covid levels.

TOTAL AUTOMOTIVE TRADE

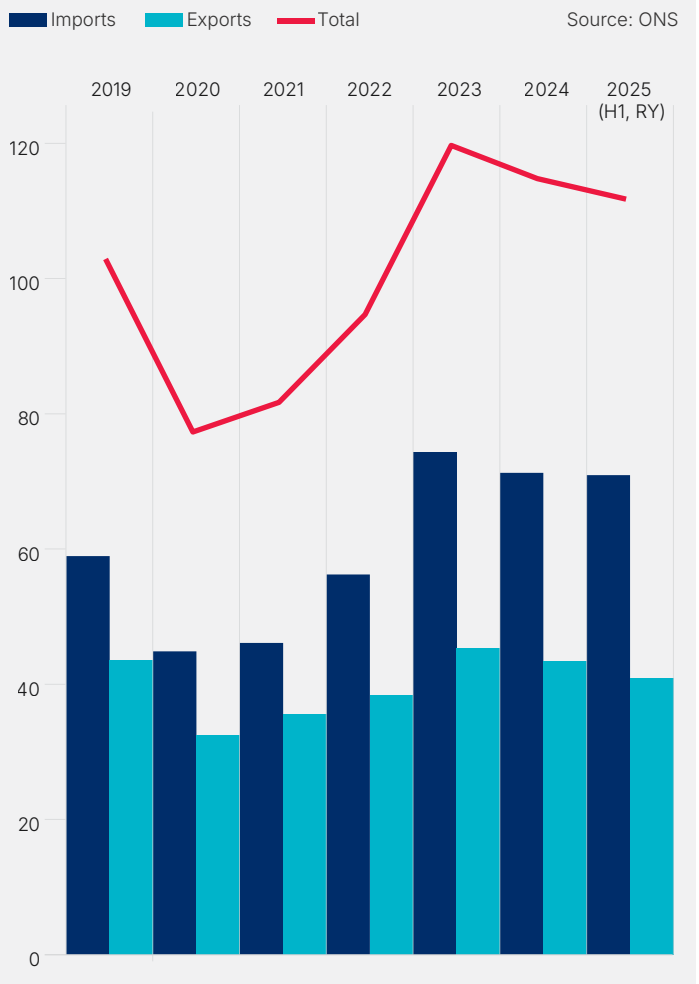
With escalating geopolitical tensions and tariff levels increasing globally for the first time in decades, it is hard to think of a more tumultuous period in international trade relations since the 1930's. And yet, the UK automotive sector's trade footprint shows the industry's ability to remain an international trade powerhouse while facing multiple challenges.

Last year, the sector generated almost £115 billion worth of trade through the import and export of motor vehicles, parts and components. Trade in automotive goods also remained well above the £100 billion threshold in the first half of 2025. Close to £112 billion worth of trade was delivered in the twelve months to June 2025, at the height of the tariff crisis following the implementation of additional charges on imports of UK-built passenger cars and typical components into the US.

As a deal between the UK and the US now lowers potential tariff liabilities on automotive imports into the US and agreements between Washington and its key trading partners reshape the global trade landscape, the sector is in a good position to maintain its £110+ billion trade powerhouse status by the end of 2025.

Moreover, the UK automotive industry remains a fundamental contributor to the UK's economy, with shipments of motor vehicles, parts and components generating more than £43.5 billion in 2024. The industry accounted for 13.3% of all exports of UK industrial products last year, up from 12.9% in 2023. The sector's relative weight declined marginally to 12.6% in the first half of 2025 on a rolling year basis, still ranking second after other transport equipment across all exports of UK manufactured goods despite major headwinds in global trade relations.

CHART 01 **UK IMPORTS, EXPORTS AND TOTAL TRADE (£BILLIONS)**



The fact that the industry could claim such results while facing the most challenging trade environment since the end of the Second World War testifies how resilient it has become over the years, with the explosion of global trade tensions the most recent in a long list of systemic crises that have deeply affected the sector over the last decade.

However, while resilience is crucial to preserve the industry's strong fundamentals, growth currently remains elusive, and signs of a slowdown in international automotive trade are now tangible. While the industry is gearing up to produce ever more zero and low emission vehicles, and the sector suffers the impact of new trade barriers, a significant downturn in domestic production inevitably drags down both the sector's export performance and the value of inbound shipments of components needed for domestic assembly.

Although the value of automotive trade remains above the £100 billion threshold, import and export values peaked in 2023 and have marginally declined ever since. The same trends are reflected across all main contributors of the sector's trade performance, but the challenges are particularly significant for the industry's supply chain, with total trade in typical parts remaining well below pre-Covid levels.

Reversing the current trajectory will depend largely on the industry's ability to repurpose manufacturing facilities and offer a new line-up of low and zero-emission models as soon as possible. Volumes are expected to recover moderately next year by over 6% and grow thereafter as new electrified models progressively come to market. Delivering on the objectives of the new UK Industrial and Trade Strategies is equally crucial to meet the government's stated ambition to manufacture 1.3 million units per year by 2035. This "relaunch" of domestic production requires enhanced competitiveness and progressive improvements in global trade relations – key elements that will put UK automotive trade firmly on track towards sustained growth.

TRADE IN FINISHED VEHICLES

Excluding the Covid pandemic shutdown, UK production of passenger cars and vans hit the lowest levels since the 1950s in the first half of 2025 – the result of a difficult transition to low and zero-emission technologies, combined with a decade of unprecedented regional and global disruptions.

At the end of 2024, more than 685,000 cars and Commercial Vehicles (CVs) left UK production lines to be sold overseas. The sector remains strongly export-oriented, with 77.4% of UK-made cars and 65.3% of vans shipped abroad last year. In the first half of 2025, export volumes fell to 648,000 on a rolling year basis, as new tariffs, the consolidation of van manufacturing and ongoing retooling of UK car factories all contributed to a significant decline over the last sixteen months.

Export values fared better than volumes. Last year, exports of all types of finished vehicles – including passenger cars, buses, trucks, vans and other commercial vehicles – were worth more than £32 billion, with exports of passenger cars representing by far the largest share.

CHART 02 AUTOMOTIVE SHARE OF ALL UK MANUFACTURED GOODS EXPORTS (%)

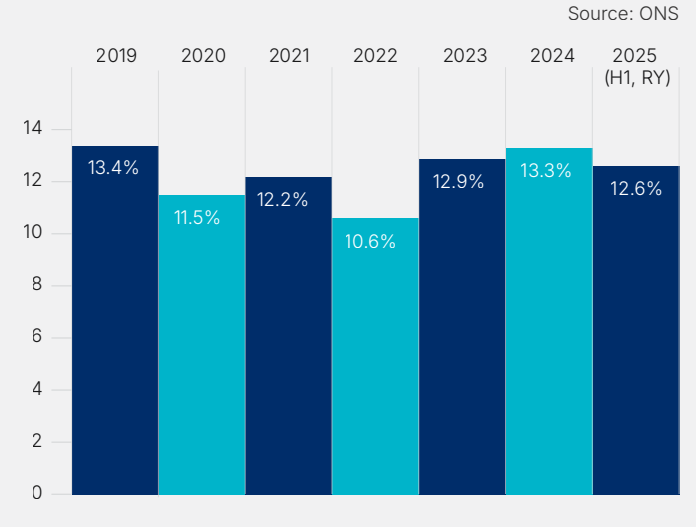


CHART 03 UK VEHICLE PRODUCTION - ROLLING YEAR BASIS (MILLIONS)

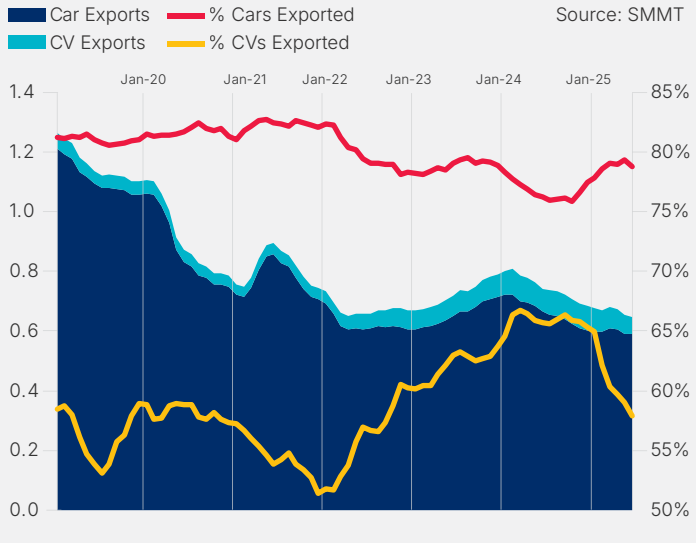


CHART 04 TRADE IN FINISHED VEHICLES (£BILLIONS)

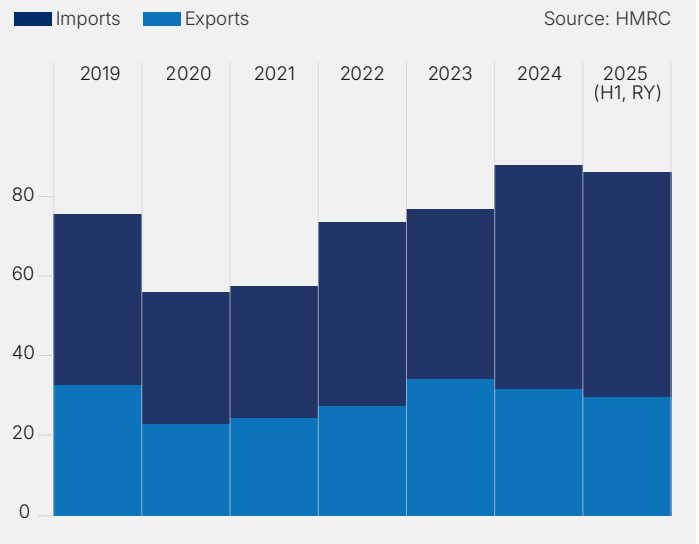


CHART 05 TOP 10 CAR EXPORT DESTINATIONS BY VOLUME (SHARE OF TOTAL)

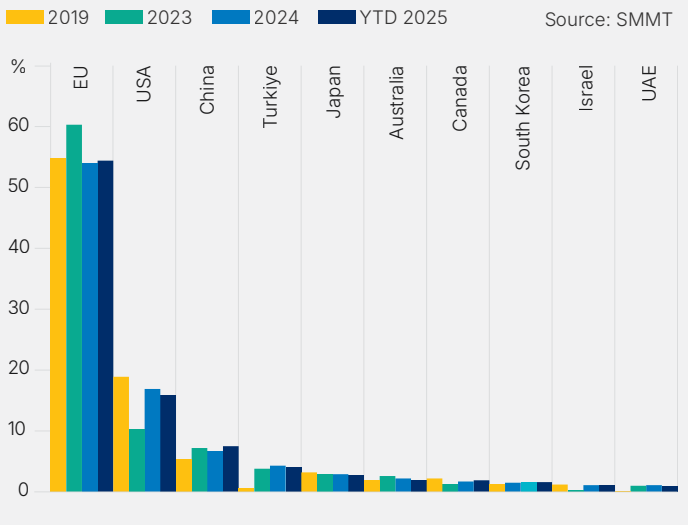


CHART 06 CV EXPORT DESTINATIONS BY VOLUME (2024)

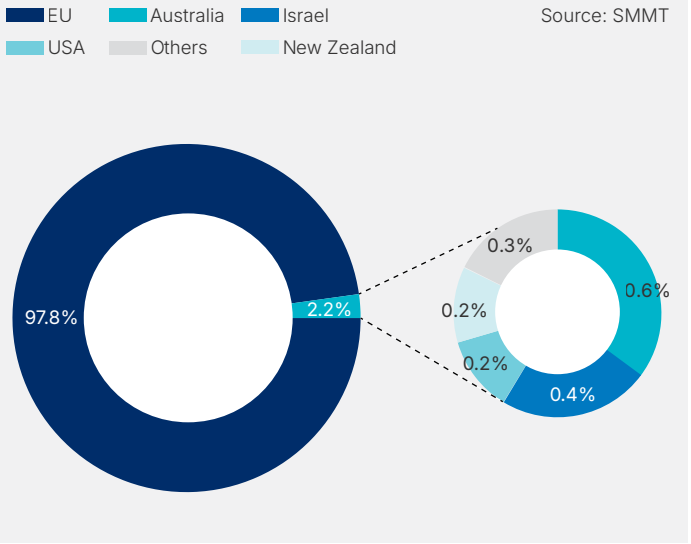
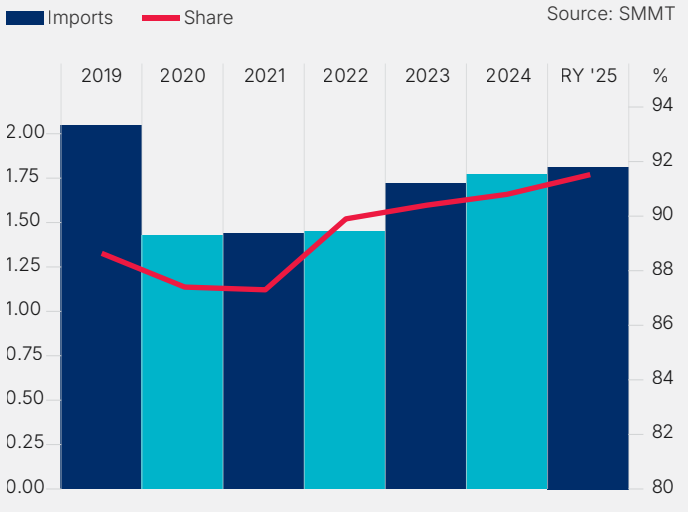


CHART 07 UK NEW CAR REGISTRATIONS - IMPORTS VOLUME AND SHARE (MILLIONS)



However, trade barriers and the reduction in volumes took a significant toll on exports. In 2023, combined export values for all finished vehicles exceeded pre-Covid levels, but in the 12 months to June 2025, outbound shipments were worth £30 billion, £2.9 billion less than export values recorded at the end of 2019 and £4.5 billion less than 2023's peak.

While significant, an -8.8% reduction in export values between pre-Covid levels and the height of the global tariff crisis is modest compared with the -41.2% decrease in export volumes of cars and CVs experienced over the same period. Although inflation can partially explain greater stability in export values, market restructuring following Honda's divestment and business strategies are likely the main reasons behind the growing divergence, with UK manufacturers likely moving up the industry's value chain to focus on high-value production and remain profitable.

UK cars are exported to all corners of the globe. For several years, the world's four largest economies were ranked as the main export destinations of UK-built cars. However, since 2023, while the EU, the US and China have retained their position as the top three export markets, Türkiye has overcome Japan as the sector's fourth largest export destination. Together, the EU, US, China and Türkiye account for 83% of all exported cars by volume in 2024 and the first half of 2025, with the EU receiving some 54% of all shipments.

Despite new tariff barriers, the relative weight of the US has declined by just one percentage point in the first half of 2025 compared with the end of 2024 (to 15.9%), a possible indication that exporters attempted to stockpile units on the other side of the Atlantic ahead of the implementation of higher tariffs. Notably, global trade tensions did not result in a radical change in export trade patterns, although exports to the EU, China, Canada and South Korea increased their collective share by 1.5 percentage points in the first half of 2025 compared with the end of last year.

Compared with passenger cars, exports of UK-made CVs have grown substantially over the last six years. At the end of 2024, CV export volumes were 78% higher than at the end of 2019. However, the closure of Stellantis' Luton factory at the beginning of 2025 to consolidate production and focus exclusively on electric van manufacturing at Ellesmere Port had significant impacts on this segment. While remaining well above pre-Covid levels, CV exports declined by almost a third (-29.8%) in the rolling year to June 2025 compared with the end of last year, having fallen -62.3% in the first six months of this year. In terms of export destinations, CV exports remain eminently dependent on a single market, with the EU receiving almost 98% of all outbound shipments in 2024, although that had dipped to below 94% in the first half of this year, given the restructuring.

Turning to imports, despite increasing global trade tensions, the UK remains one of the world's most open car markets. Having surpassed 90% in 2023, new registrations of passenger cars of foreign origin reached a record-breaking share of 91.5% in the 12 months to July 2025, likely the highest share across all countries with a globally competitive domestic automotive sector.

Yet, the total number of imported units have never fully rebounded to pre-Covid levels, with a decrease in volumes of –11.5% in the 12 months to July 2025 compared with 2019. The reduction is most likely due to the structural adjustment of the UK new car market and its resizing following lockdowns, changing travel use patterns and the impacts of transitioning to more expensive low and zero-emission vehicles.

On the contrary, the value of imported finished vehicles of all types has consistently exceeded pre-Covid levels since 2022, driven by imports of passenger cars. By June 2025, the total value of these imports was £56.5 billion on a rolling year basis, 32% higher than at the end of 2019. Import values are experiencing a slowdown, however, although far less abrupt than experienced with exports, with a loss of £1.3 billion to June 2025 after peaking in 2023, with the value of car imports almost unchanged over the same period.

Despite being an import-dominated market, only nine trading partners supply passenger cars to the UK. Chinese-built cars continue to gain market share despite the decision from a major global OEM to service the UK from the EU instead of China, with imports from China representing 12.1% of all imported new car registrations in January-July 2025, a significant increase from less than 1% in 2019. However, China remains a distant second, with imports from the EU representing 68.3% of the total so far this year.

TRADE IN PARTS AND ENGINES

Trade in typical parts and components continues to struggle on its way to a full post-pandemic recovery, with significant knock-on effects from the slowdown in finished vehicle production, increasing tariff barriers and the transition to low and zero-emission technologies all affecting both imports and exports.

In the 12 months to June 2025, the total value of imports and exports of parts was £13.7 billion, a decrease of -23.7% compared with the end of 2019. While exports lost about £1 billion in value – a decline of more than -20% – imports of components lost exactly a quarter of their value (-25%), with a loss in value exceeding £3.2 billion.

CHART 08 **CAR SHARE OF IMPORTED NEW CAR REGISTRATIONS BY SOURCE**

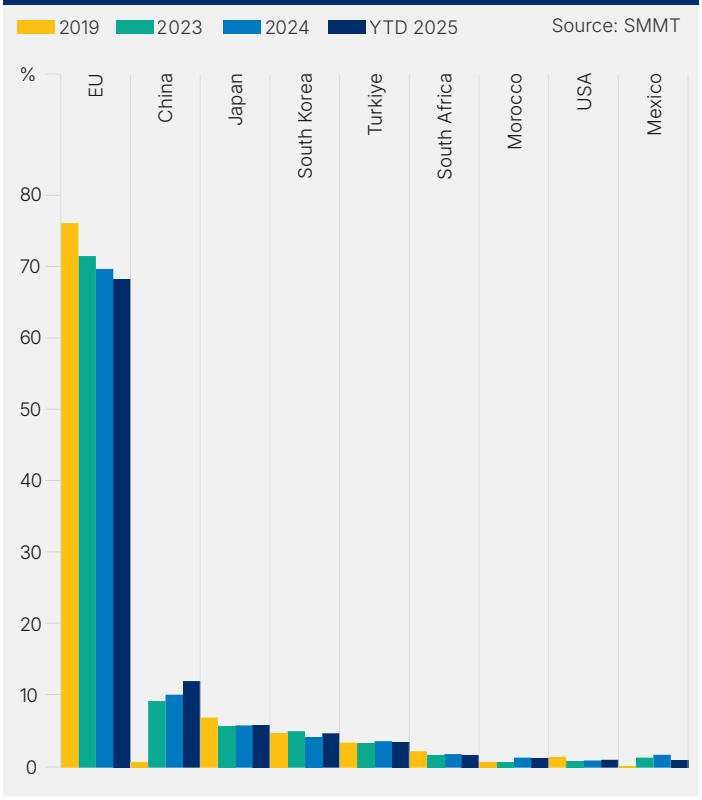
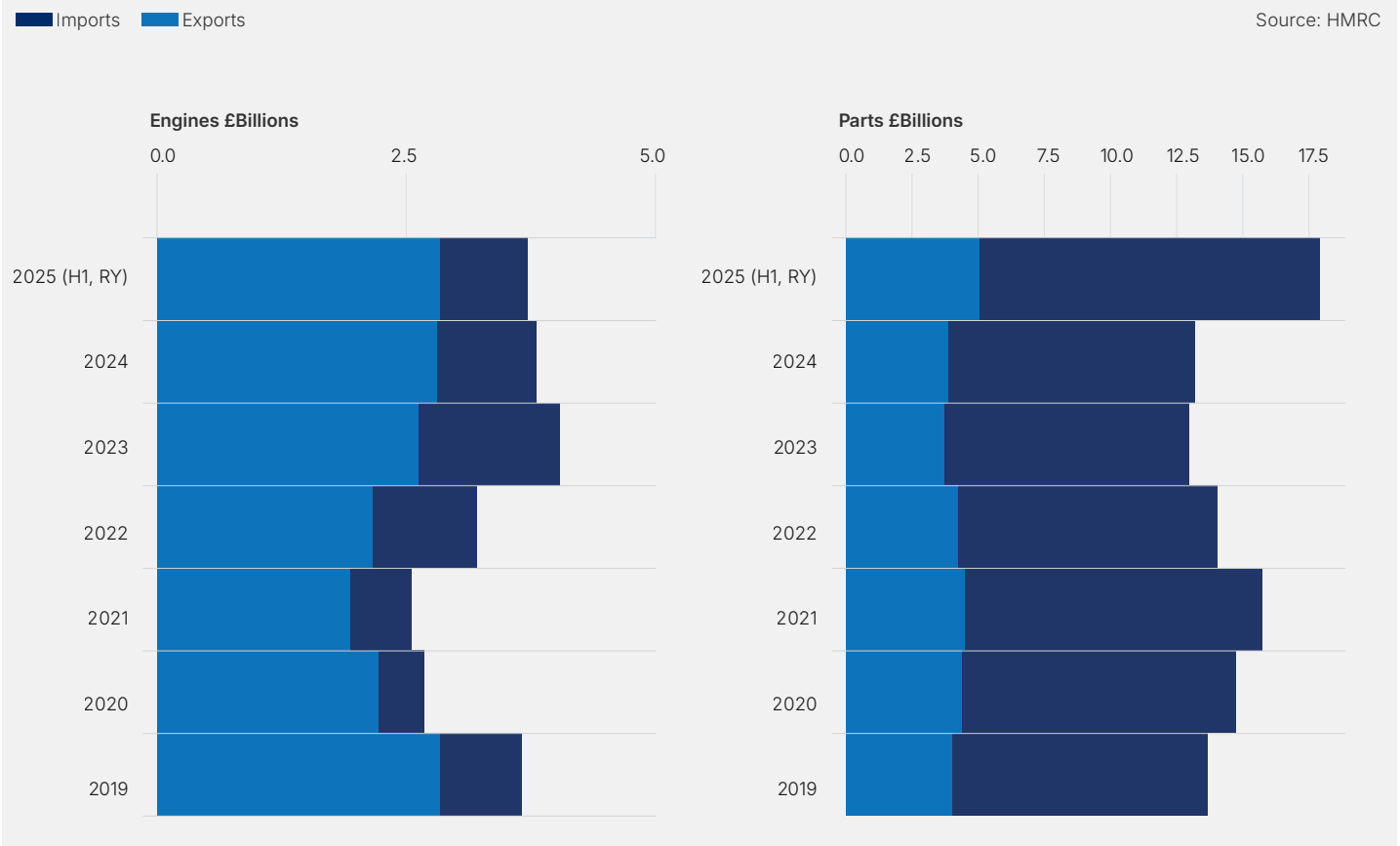


CHART 09 **TRADE IN PARTS AND ENGINES (£BILLIONS)**



On the import side, the recovery appears more robust when adding the value of imports of batteries, with total combined import values reaching touching distance of pre-Covid levels in 2023 before declining again in line with the rest of the industry. However, even when considering all imports of lithium-ion batteries and battery parts as automotive-related imports, today's combined import values remain well below pre-pandemic levels.

With regard to engines, production volumes have also experienced a significant downturn amid declining demand for ICE vehicles. In the rolling year to July 2025, the UK produced 1.5 million engines, exporting a little over 1 million units. This is a significant reduction when compared with 2.5 million units produced at the end of 2019, when 1.5 million of which were exported overseas.

Despite the challenges, trade by value in engines shows signs of resilience. The combined value in imports and exports of engines was £3.7 billion in the 12 months to June 2025, 1.5% above pre-Covid levels. While a 7.5% growth in imports is the main determinant of this result, mainly driven by the increase in value of imports of petrol engines, trade in engines remains the only industry segment where the UK automotive sector maintains a trade surplus, with exports valued at over £2.8 billion. Most notably, the surplus is widening, and engine exports is the only trade flow across all main industry segments that has yet to peak following the end of the Covid pandemic.

CHART 10 **IMPORTS OF TYPICAL PARTS, BATTERIES AND BATTERY PARTS (£BILLIONS)**

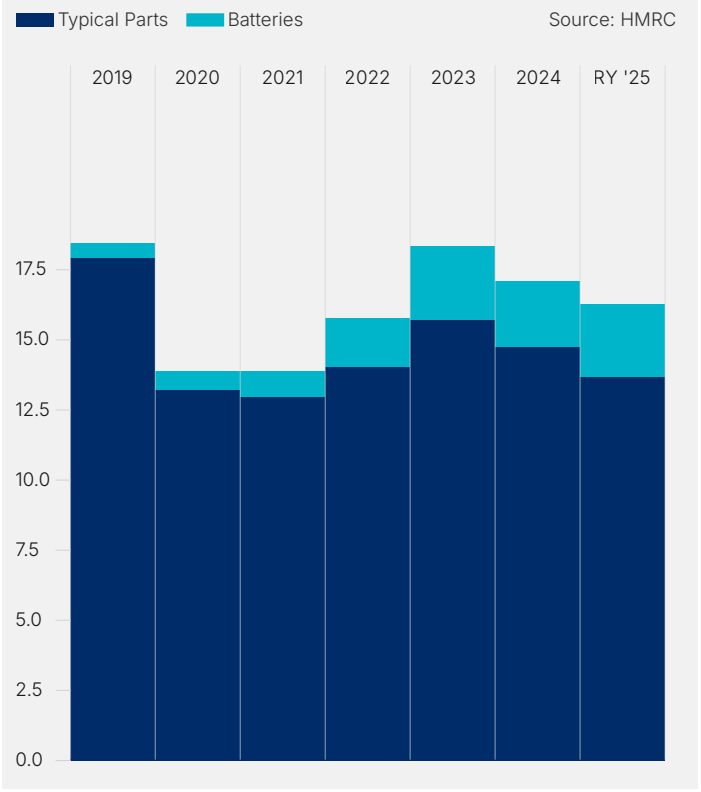
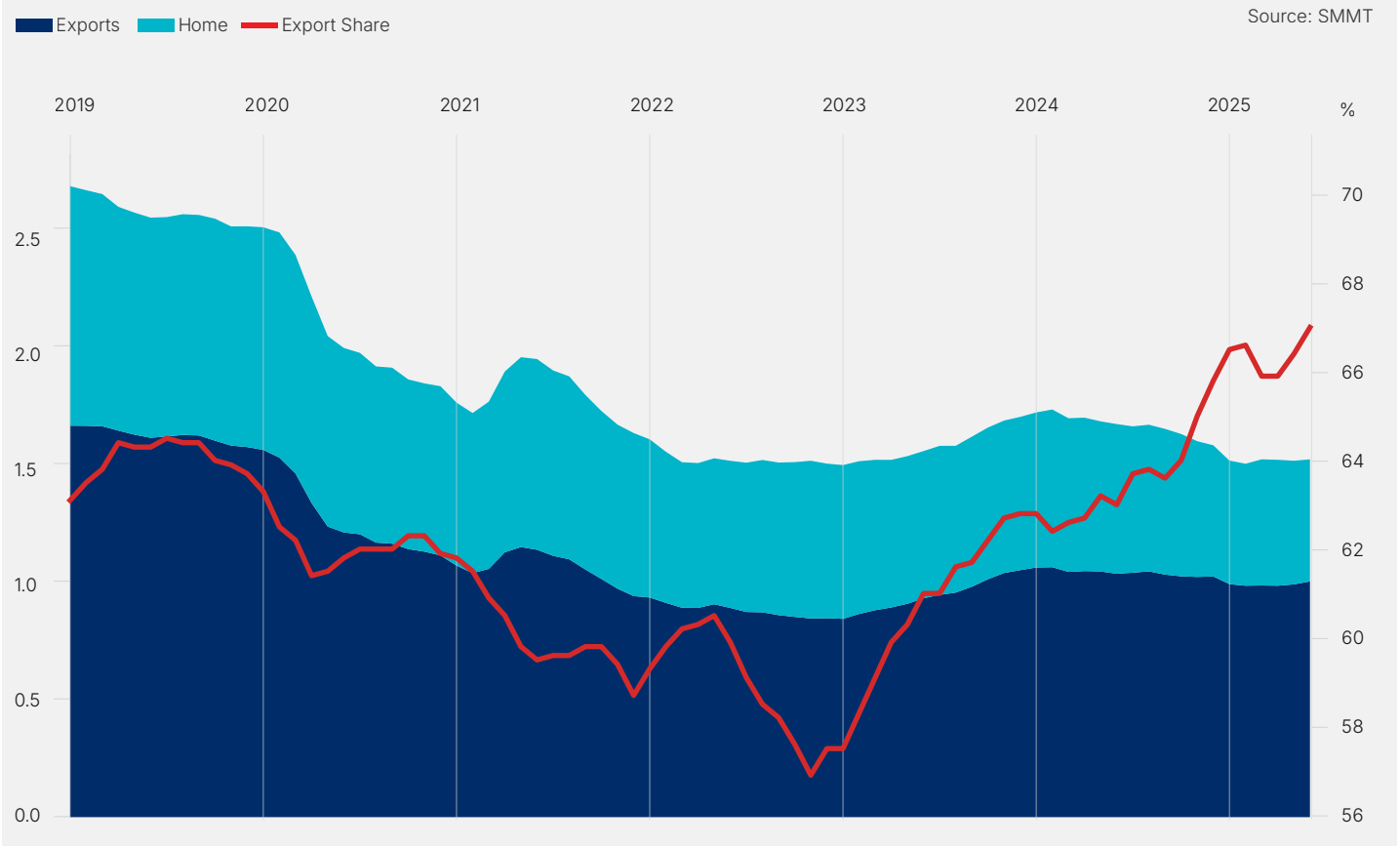


CHART 11 **UK ENGINE PRODUCTION (12MMAT BASIS) MILLIONS**



CHAPTER 02
TRADE IN ELECTRIFIED VEHICLES

- In 2024, for the first time ever, the value of trade in electrified passenger cars exceeded the value of trade in traditional internal combustion engine models, with the gap widening in the first half of the year.
- Trade in hybrid and battery electric vehicles is now the main contributor to the sector's trade balance, leading in terms of imports and exports between the UK and the rest of the world.
- UK production and export of alternatively fuelled vehicles is dominated by hybrid models, with battery electric vehicles currently declining as legacy models run out and industry invests to transform factories to more fully electric models.
- The UK's BEV market is dominated by imports, with models sourced from the EU and Chinese brands taking centre stage.

TRADE IN EVS

Last year, for the first time ever, trade in electrified passenger cars (EVs) – including all types of hybrids and purely electric vehicles – was worth more than inbound and outbound shipments of traditional Internal Combustion Engine automobiles (ICE) – a groundbreaking milestone for the UK automotive industry.

The combined value of EV imports and exports was worth more than £39 billion in 2024, exceeding the value of trade in ICE cars by more than £5.7 billion. The gap has almost doubled to £11 billion in the 12 months to June 2025, with total EV trade crossing the £41.4 billion threshold. Compared with pre-pandemic values, trade in EVs has increased by 518%, while trade in ICE has declined by -47%.

Despite growing concerns of a significant slowdown in global automotive exchanges, trade in EVs remains a success story. While flatlining in the first half of the year, the value of EV exports from the UK to the rest of the world overtook the value of ICE exports in 2023 and has maintained a growing lead ever since. EVs generated more than £16.5 billion in exports in the first half of 2025 on a rolling year basis, an increase of 351% compared with the export values recorded at the end of 2019, while ICE exports were worth £9.9 billion, a decline of -62% compared with pre-pandemic levels.

Driven by Hybrid Electric Vehicles (HEVs), EV export values have increased compared with ICE exports despite a significant reduction in total production volumes over the last two years. In particular, UK production of Battery Electric Vehicles (BEVs) practically disappeared in 2024, as domestic manufacturers invested into new BEV manufacturing facilities and phased out production of older models such as the Nissan Leaf and electric MINI ahead of new model introductions. The expectation is that BEV exports will grow significantly in the future.

CHART 12 TOTAL TRADE IN CARS – EV VS ICE/OTHERS (£BILLIONS)

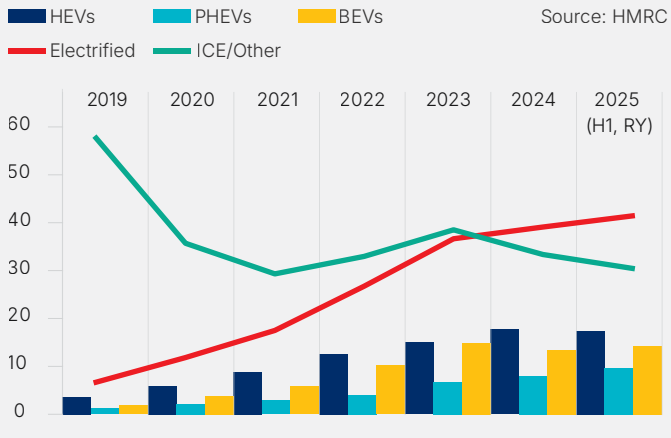
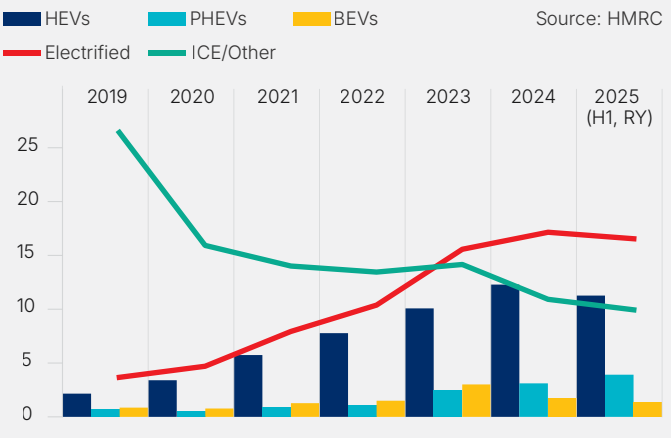


CHART 13 UK CAR EXPORTS – EV VS ICE/OTHERS (£BILLIONS)



While manufacturers invest to offer a modern line-up of fully electric cars, reduced BEV exports are temporarily holding back the sector's performance. BEV export values in the first half of 2025 are just 59% higher than at the end of 2019 and likely to moderate further until new models appear. On the contrary, production of hybrids – including HEVs and plug-in hybrid (PHEV) models – is now in line with the 2023 industry peak. This is reflected in hybrid export values. HEV exports peaked in 2024 at £12.3 billion before losing a little over £1 billion in the first half of the year. HEV exports are 422% more valuable today than in 2019. For PHEVs, exports maintained their momentum in the first half of 2025, with export values growing 25.8% compared with the end of 2024 to reach £3.9 billion.

Despite the challenges and a growing trend in key markets to backtrack from more ambitious decarbonisation plans, the push towards a specialisation in high-value EV exports seems inevitable as domestic manufacturers continue to move up the industry's value chain. While EVs represent just over 37% of domestic production in the first half of 2025, EV exports represent 62% of the entire value of all car exports. Before the pandemic, EVs represented just 12% of all car export values.

Regarding inbound shipments, the value of EV imports exceeded the value of ICE in the first half of 2025 for the first time ever. In the rolling year to June 2025, EV imports were worth almost £24.9 billion, exceeding the value of ICE by more than £4.3 billion. Compared with pre-Covid levels, EV imports have seen their value increase by more than 721%, while inbound shipments of traditional ICE units saw their value decrease by -34.3%.

Growth in EV import values has been more uniform across different powertrains compared with EV exports, with HEVs, PHEVs and BEVs all keeping sustained growth rates since the end of 2019 and maintaining momentum well into 2025. However, growth in imports of BEVs stands out against imports of hybrid models, with a 1,223% increase from 2019 to June 2025.

CHART 14 UK EV CAR PRODUCTION (THOUSANDS)

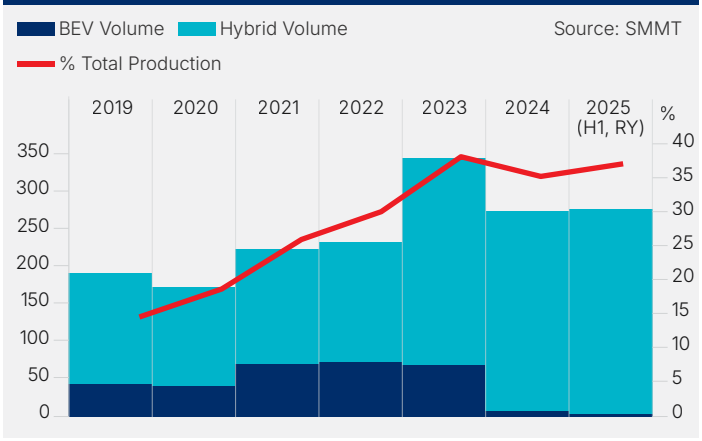
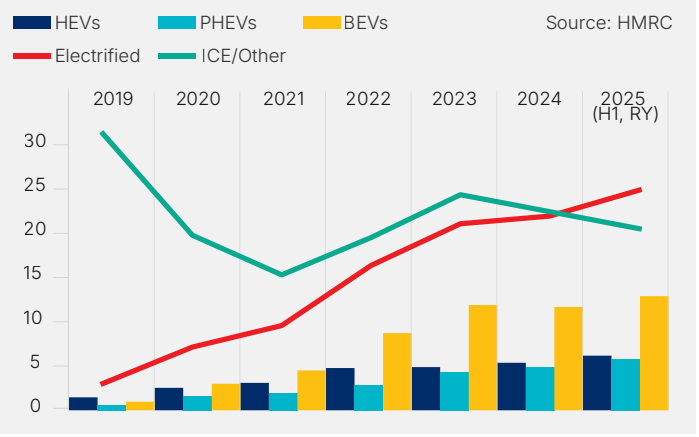


CHART 15 UK CAR IMPORTS – EV VS ICE/OTHERS (£BILLIONS)



THE UK BEV MARKET

BEV imports' growth in value is reflected in new BEV registrations. In the first six months of the year, BEV registrations increased by 34.6%, representing 21.6% of the UK's new car market. In July 2025, growth slowed down to 9.1%, likely distorted by the announcement of a much-needed new Electric Car Grant in mid-July, leading to initial uncertainty as to which models will qualify. Regardless, the market has seen the consolidation of key trends when it comes to the origin of new BEVs.

In the first seven month of 2025, imported cars covered almost the entirety of the UK new BEV market. The market share of UK-built BEVs has decreased from 14% in 2019 to just 0.5% of new BEV registrations.

Notably, BEV imports from the EU are booming. For many years, BEV imports from the EU underperformed compared with other types of vehicles. However, EU BEVs represented 64% of the UK's BEV market in the year to July, and 64.3% of all BEV imports, just 4.6% below the EU share of all imports regardless of powertrains. In parallel, import share of Chinese-made BEVs have declined from 32.7% in 2023 to today's 24.3%.

Predictions of an imminent flood of Chinese-made BEVs following the imposition of trade restrictions in most advanced markets except the UK have not yet materialised, while manufacturers in our closest and largest trading partner have enhanced their competitiveness in the BEV segment. Nevertheless, there have been a succession of new Chinese brand launches in recent months.

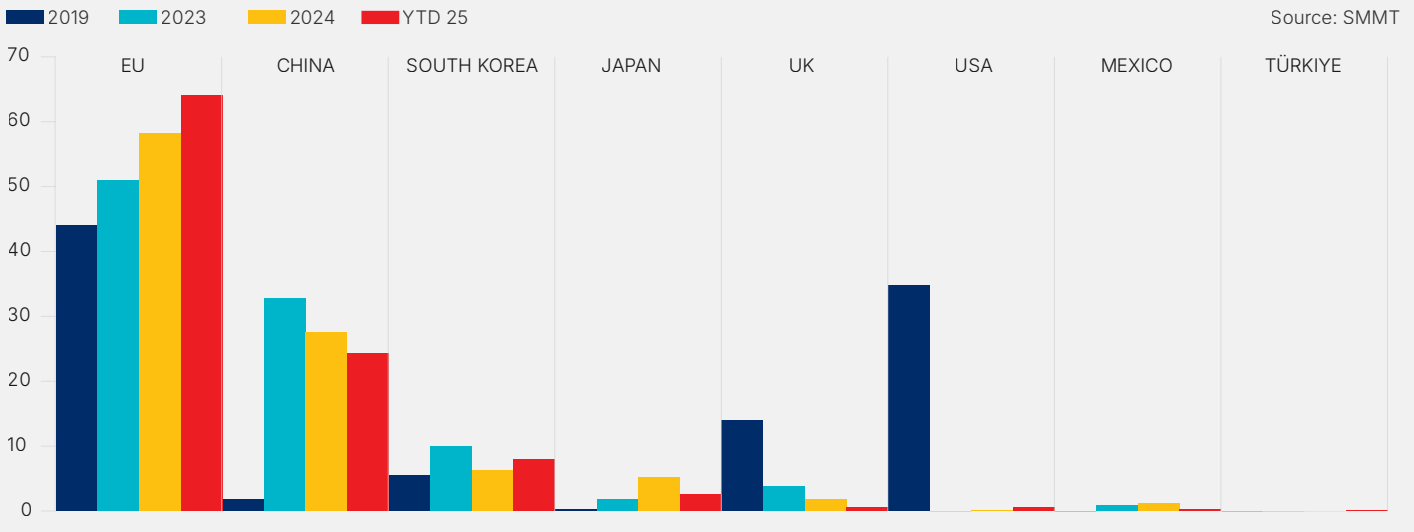
Market forces are unlikely to be the sole determinants of these trends, with three major elements to consider. First, Tesla's decision to serve the UK from Germany instead of China was a key reason behind the loss of Chinese BEV market share relative to imports from the EU. The decline should not be misinterpreted as a loss of competitiveness of Chinese BEV manufacturers, with Chinese BEV absolute volumes increasing 7.2% last year despite Tesla's loss, largely thanks to new Chinese homegrown brands entering the UK market. Second, the market-distorting effects of the Zero Emission Vehicle (ZEV) Mandate has forced brands to offer unsustainable discounts on BEVs to avoid penalties, reducing the profitability of the BEV market and, perhaps inadvertently, helping manufacturers to grow sales of ICE and HEV models to finance BEV sales. Third, the highly facilitative terms of the EU-UK Trade and Cooperation Agreement that greatly reduce the risk of tariff liabilities and have fuelled BEV imports from the EU.

RECOMMENDATION 01

DELIVER INVESTMENT AND INDUSTRIAL STRATEGY

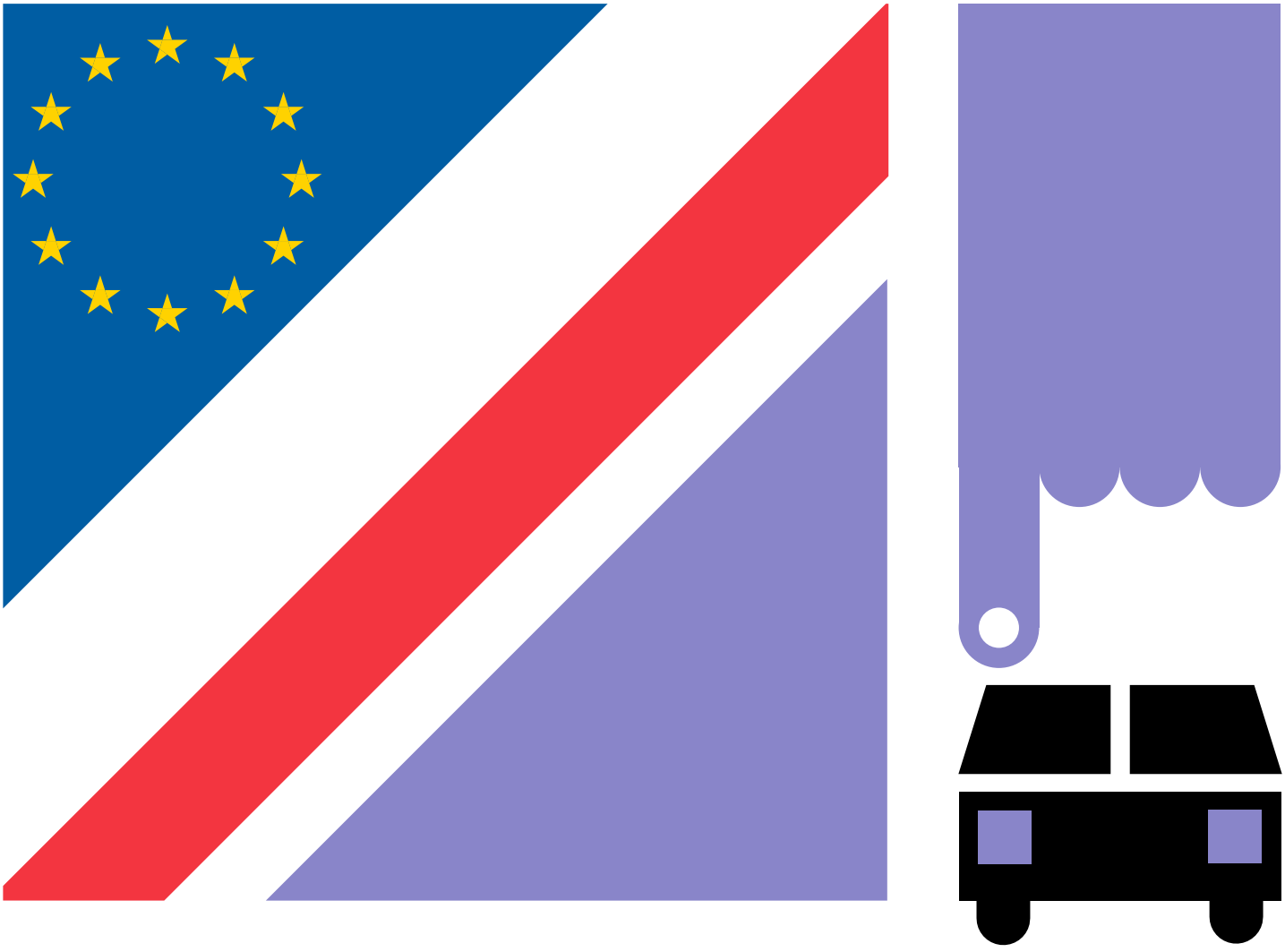
For EV exports to grow and ensure domestic manufacturers re-establish a firm footing in the UK BEV market, announced investment must be delivered without delay and new investment secured in the near future. This is essential if the UK is to achieve the ambition set out in the recently published Industrial Strategy, of manufacturing 1.3 million units per year by 2035 and becoming a world leader in zero-emission technologies.

CHART 16 **UK BEV NEW CAR MARKET BY COUNTRY OF ORIGIN (%)**



CHAPTER 03

BREXIT 5 YEARS ON: IMPACTS ON UK AUTOMOTIVE TRADE WITH THE EU AND THE REST OF THE WORLD



- Five years from Brexit, the UK automotive industry remains a European trade hub deeply intertwined with the EU, generating bilateral trade worth £67.6 billion in the 12 months to June 2025 - £23.5 billion more than automotive trade with the rest of the world.
- While the UK industry's fundamental strengths remain, the industry has faced a seismic shift, bearing the costs of a difficult adjustment to a far more challenging bilateral relationship. As a result, trade with the EU has generally underperformed versus trade with non-EU countries, with structural gaps emerging in imports of finished vehicles and exports of parts.
- Despite a slowdown in exports, bilateral trade in EVs represents a bright spot, with hybrid and fully electric vehicles overtaking traditional internal combustion engine cars by value of both imports and exports. However, much tougher origin rules might completely change the situation from January 2027.
- Brexit has fundamentally altered the conditions underpinning trade between the UK and a large number of preferential trading partners. Resolving systemic uncertainty on the use of EU content in trade with these partners requires immediate and decisive action to upgrade continuity agreements and seek accession to the PEM Convention.

WHAT HAS NOT CHANGED IN EU-UK TRADE

The UK's withdrawal from the EU on 31 January 2020 and the implementation of the UK-EU Trade and Cooperation Agreement (TCA) on 1 January 2021 represented a seismic shift in automotive trade relations between business and consumers on both sides of the Channel.

Five years after the UK's formal exit, a reasoned assessment of Brexit impacts can provide a good basis to understand the EU's role in the UK automotive industry today and address both negatives and positives in trade with the EU and the rest of the world.

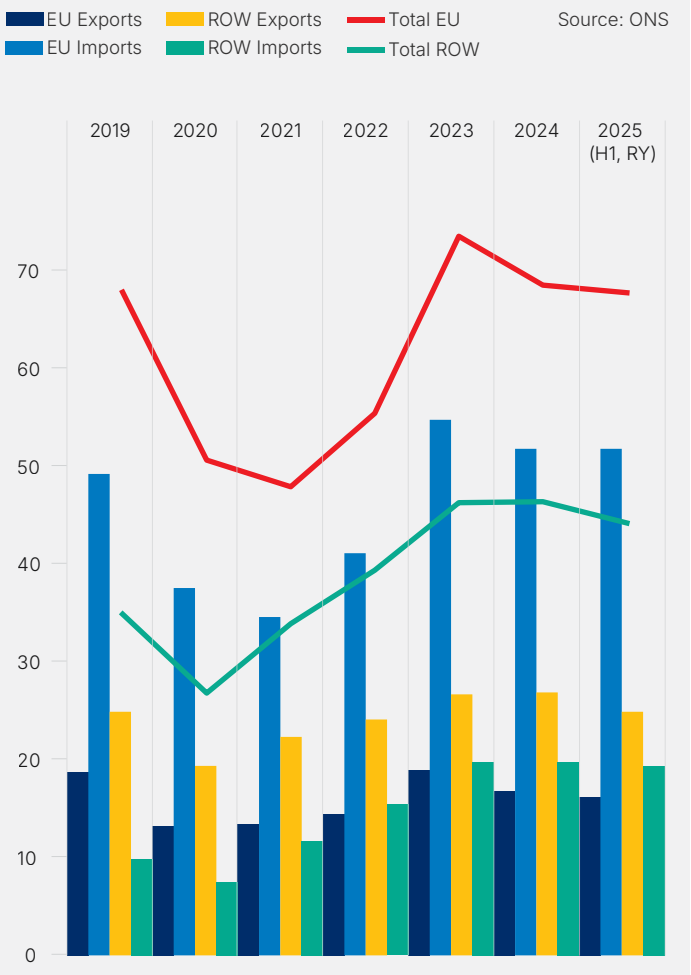
In this regard, the fundamentals of deep regional economic integration remain unchanged. While traditionally linked to international supply chains and openness to global opportunities, the UK automotive industry remains an eminently European trade hub, with total trade value with the EU exceeding the combined value of imports and exports of motor vehicles, parts, trailers and semi-trailers with the rest of the world by more than £23.5 billion in the first half of 2025. Imports and exports to the EU represent 60.5% of the entire Automotive trade in value terms, with automotive exchanges with the rest of the world representing 39.5% of the total.

The EU remains by far the main supplier of choice for UK consumers and businesses, with the value of automotive goods imported from the EU consistently over the £50 billion threshold since 2023, 2.7 times higher the value of all imports from the rest of the world.

In line with pre-Brexit and pre-pandemic trends, the EU remains the single largest export destination by value, across all sectors. The UK automotive industry is no exception, but automotive exports to the EU fall short of the value of exports to the rest of the world combined.

The trend holds true for passenger cars. Even though the EU receives more than 54% of all UK car exports, they were worth £9.5 billion in the 12 months to June 2025, while exports to the rest of the world were worth £17 billion.

CHART 17 **AUTOMOTIVE TRADE VALUE – EU VS ROW (£BILLIONS)**



The discrepancy is not surprising. The differential is aligned with pre-Brexit and pre-Covid trends and it reflects different UK OEM export portfolios. While the EU remains by far the largest export destination for UK volume manufacturers, exporters of premium and luxury vehicles have a more diversified strategy, with the majority of higher-end cars directed to American, Asian and Middle Eastern markets.

Comparing monthly export values returns a blurred picture, with exports to the rest of the world performing relatively better than those to the EU, but without showing a major gap. For the moment, this trend dispels the expectations of a major redirection of British car exports to non-EU destinations in response to Brexit.

Likewise, there is no evidence of de-linking between the UK and the EU supply chains following Brexit, with the fundamentals of EU-UK trade in parts and engines remaining broadly aligned with pre-Brexit and pre-Covid times. For engines, after a major decline in the immediate aftermath of the TCA implementation and the lockdown in 2021, the EU has regained its position as the largest export destination for UK-made engines by value in 2022. However, in line with long-term trends, the collective value of engine exports to the rest of the world has remained higher than those to the EU, with exports to Türkiye playing a major role thanks to a highly integrated supply chain for CVs.

CHART 18 EXPORTS OF PASSENGER CARS – EU VS ROW (£BILLIONS)

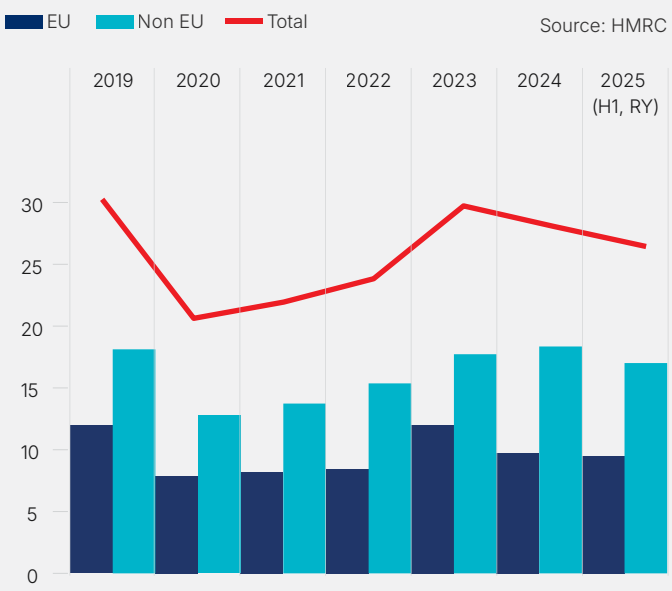


CHART 19 UK CAR EXPORTS BY TYPE AND DESTINATION

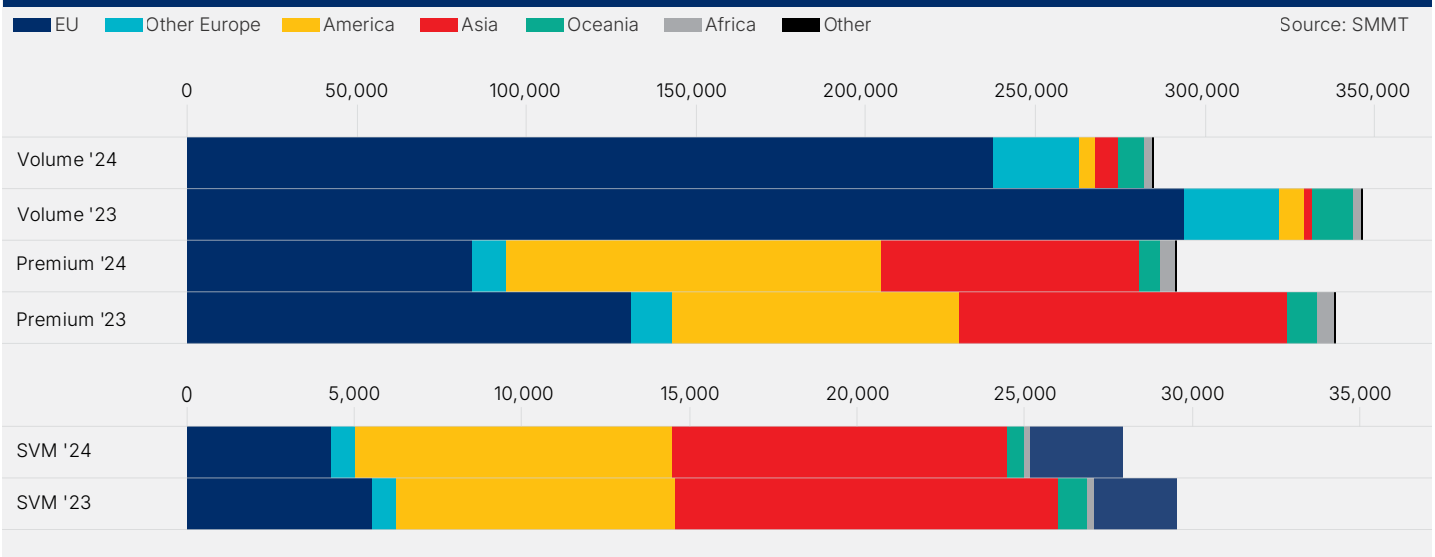


CHART 20 INDEXED VALUE OF EXPORTS OF FINISHED VEHICLES – EU VS ROW (JAN 20=100)

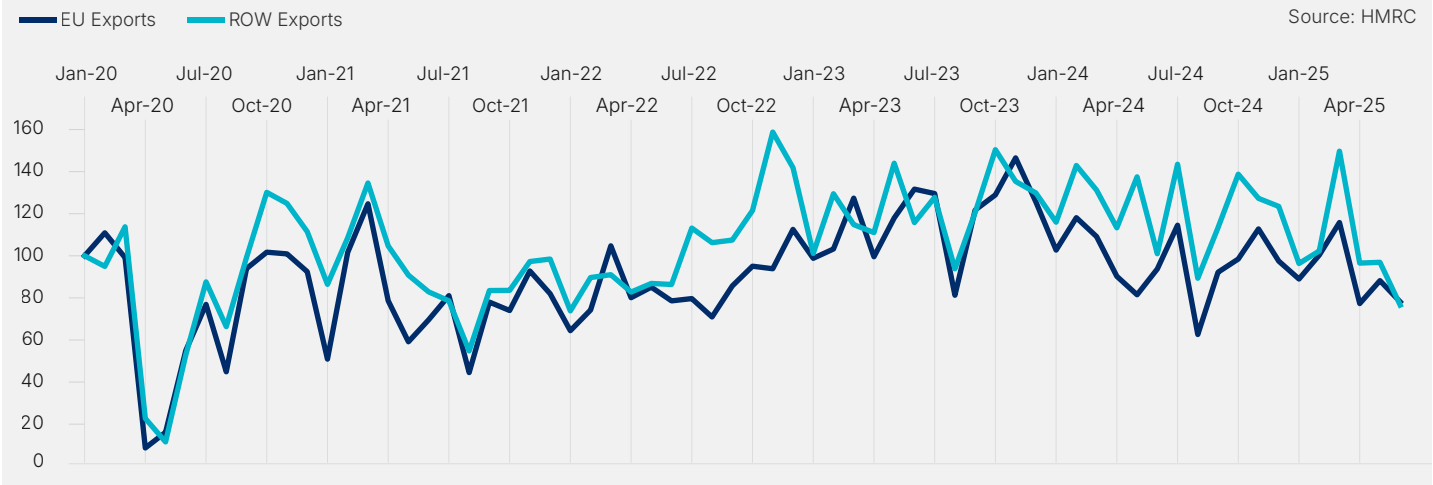
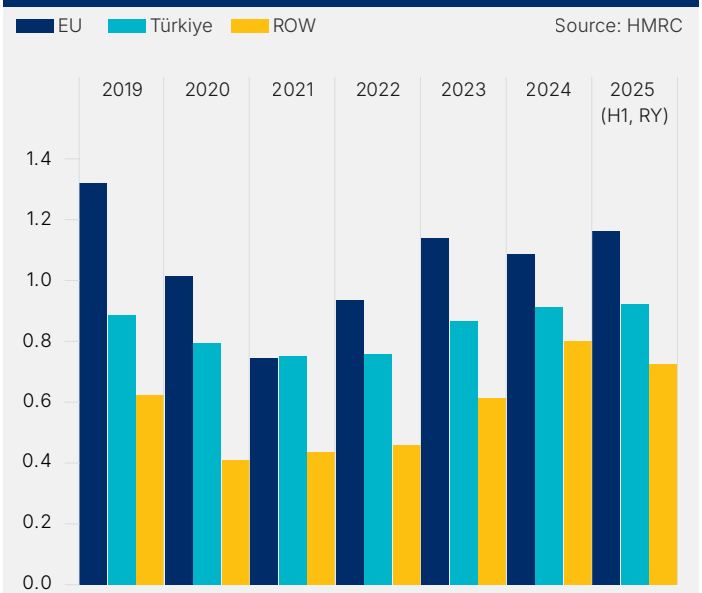


CHART 21 ENGINE EXPORTS – EU, TÜRKIYE, ROW (£BILLIONS)



As for other parts, the EU continues to dominate imports by value, and it maintains a solid lead as the main destination of UK-made components. Imports of EU parts are worth £7.7 billion in the first half of 2025 on a rolling year basis, more than four times the total value of imports from the rest of the world. Over the same period, exports to the EU generated £2.5 billion, exceeding the value of outbound shipments of parts to non-EU destinations by more than £1 billion.

Monthly import values substantiate the primary role of EU suppliers. Although the downturn in vehicle volumes has deeply affected both imports from the EU and the rest of the world, demand for EU parts appears far less elastic than predicted before Brexit. In sum, EU suppliers remain indispensable for the functioning of the UK automotive industry, both for domestic manufacturing purposes and aftermarket services.

CHART 22 IMPORTS OF PARTS, CHASSIS, BODIES – EU VS ROW (£BILLIONS)

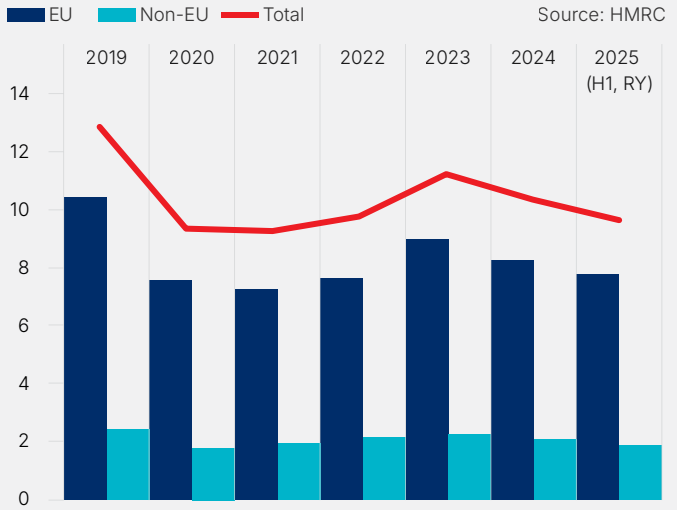


CHART 23 EXPORTS OF PARTS, CHASSIS, BODIES – EU VS ROW (£BILLIONS)

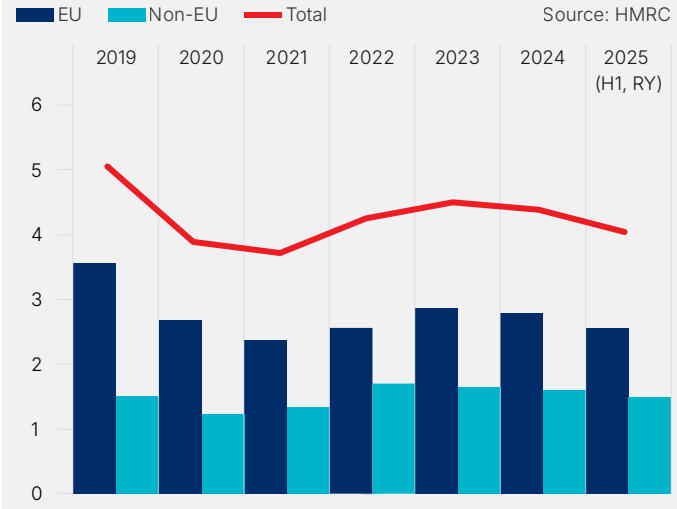
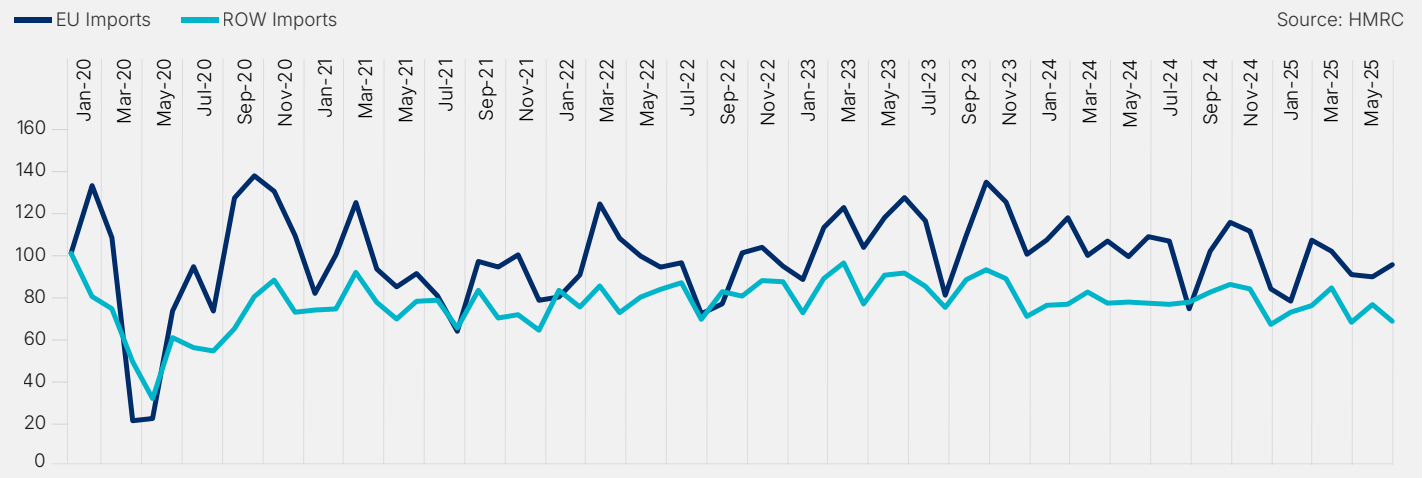


CHART 24 INDEXED VALUE OF IMPORTS OF PARTS, CHASSIS, BODIES (JAN-20=100)



WHAT HAS CHANGED IN TRADE WITH THE EU

While the sector's regional trade footprint maintains its key features five years after Brexit, the shift from participating in the EU common market to trading under the terms of a simple free trade agreement has deeply affected the industry.

The key change is that bilateral UK-EU automotive trade has generally underperformed compared with trade with the rest of the world, with exports to non-EU destinations faring relatively better than exports to the EU across the board and a major boost in imports of finished vehicles from the rest of the world.

Although isolating Brexit impacts from other major economic shocks and global industry trends is virtually impossible, new tariff and non-tariff barriers with the sector's closest and largest partner have greatly contributed to the current trends.

Brexit-related disruption was evident well ahead of the UK's formal withdrawal. After a strong rebound following the financial crisis and a phase of tremendous expansion in the first half of the 2010s, domestic vehicle production started declining immediately after the referendum results in 2016. years before suffering the impacts of Brexit implementation and of multiple global crises.

Data, alone, cannot fully represent the gigantic efforts undergone by the UK automotive industry and its European counterparts in preparing for all potential scenarios before the parties agreed on a basic free trade agreement, spending hundreds of millions in no-deal preparations. The uncertainty surrounding the outcome of negotiations led manufacturers to put on hold billions in new investment until the announcement of the deal. This pause was ill-timed as it came at a crucial moment in the industry transition to low and zero-emission vehicles with major European and global investment decisions being taken.

The aftermath of the TCA implementation was nothing short of a traumatic, with businesses facing unprecedented disruption overnight. Where there were no meaningful border formalities on 24 December 2020, the day of the TCA announcement, there was a full customs border operating on 1 January 2021, one day after the formal signature of the TCA. No amount of resources spent on preparations could mitigate against the impacts of Brexit when it actually happened. And smaller businesses without the necessary resources to prepare in advance paid a very hefty price. While the shock of the immediate aftermath has long been replaced by a new normal, in-built costs from new customs requirements, regulatory and tariff barriers for goods that do not qualify for preferential treatment remain. It was impossible not to expect severe consequences in trade with the EU versus trade with the rest of the world, and it is only thanks to the industry's hard paddling under the water that, over the surface, changes did not look too dramatic in the first place.

The gap in trade between the EU and the rest of the world is particularly wide in terms of relative growth in imports of finished vehicles, where the value of inbound shipments from non-EU countries has rebounded earlier from the lockdown and has consistently outpaced imports from the EU every month from the implementation of the TCA in January 2021.

TABLE 01 VALUE CHANGES BY TRADE FLOWS – EU VS ROW

Values (£)		2025 (H1, RY) vs 2019	
Finished vehicles	Exports	EU	-13.9%
		ROW	-5.3%
	Imports	EU	12.3%
		ROW	159.1%
Parts	Exports	EU	-28.1%
		ROW	-1.6%
	Imports	EU	-25.8%
		ROW	-21.8%
Engines	Exports	EU	-11.7%
		ROW	9.9%
	Imports	EU	10.0%
		ROW	3.0%

CHART 25 UK VEHICLE PRODUCTION (MILLIONS)

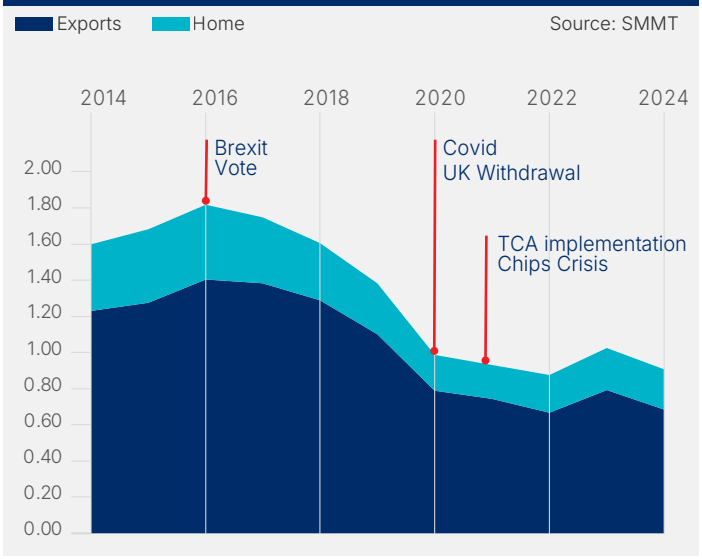
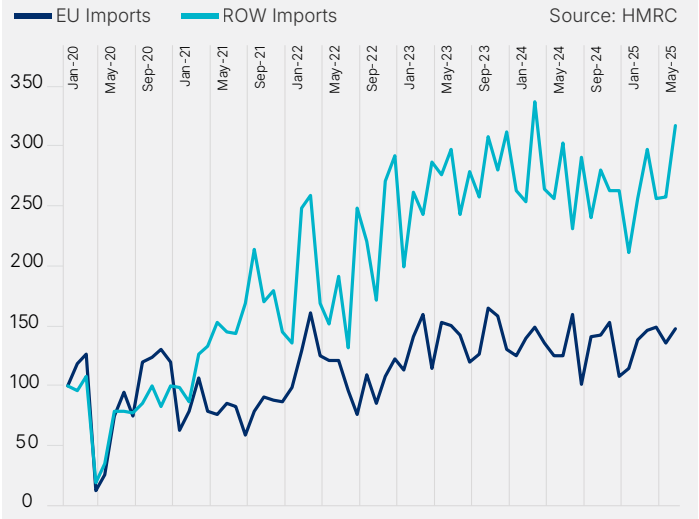


CHART 26 INDEXED VALUES OF IMPORTS OF PARTS, CHASSIS, BODIES (JAN-20=100)



For typical parts, while total trade values are a clear indication that supply chains remain deeply intertwined, a deeper dive into export data provides a clear picture of the challenges faced by UK suppliers when servicing the EU market post-Brexit. On a monthly basis, the value of exports to non-EU destinations has consistently exceeded the level recorded in January 2020, while exports to the EU appear to have undergone a structural adjustment, with monthly values remaining below pre-Covid and pre-Brexit levels from the implementation of the TCA onwards. UK parts manufacturers seem to be at a systemic disadvantage compared with EU-based suppliers, with border formalities taking a heavy toll on their competitive edge and a significant number of UK suppliers discontinuing exports to the EU in the last five years simply because they lost their business case to trade.

Ahead of the TCA implementation, concerns on potential disruption led purchasers across the Channel to conclude long-term contracts with EU-based suppliers to minimise risks. Following the TCA implementation, suppliers that did not undertake sufficient processing in the EU or in the UK faced inevitable tariff liabilities overnight. Distribution centres servicing both the EU and UK markets had to cease operations or separate the two markets to avoid paying tariffs multiple times. Operations such as those which return, repair or re-export goods for further processing faced the unknown complexity of special customs procedures. A large number of smaller operators did not have the basic tools to trade overseas, such as a simple EORI number, or access to their business' Government Gateway login credentials, let alone the expertise to handle customs operations in-house.

In the immediate aftermath, customs agents were dramatically understaffed and unprepared to respond to an immense number of requests after forty years of deep economic integration based on unfettered market access across the Channel. Five years later, the lack of accreditation or standards for customs intermediaries mean smaller traders continue to be at risk of undertaking uncompliant customs operations. Notably, while sustained growth remains elusive, UK suppliers have substantially recovered their pre-Covid position in trade with the rest of the world, where potential tariffs, border formalities and major regulatory barriers already applied before the implementation of the TCA.

TRADE IN EVS POST-BREXIT

Although Brexit has been an exercise in damage limitation for the highly integrated Anglo-European automotive industry, trade in EVs has represented a bright spot in bilateral trade relations.

It is virtually impossible to assess how big a brake Brexit has been on EV exchanges, what EV growth rates could have been achieved without new trade barriers, what proportion of EV trade would have occurred regardless of underlying trading conditions or what proportion of EV imports from the EU is determined by the market-distortive impacts of the UK ZEV mandate. However, it is certain that the implementation of the TCA has not – yet - represented an insurmountable obstacle, allowing bilateral trade in EVs to grow throughout the Covid crisis and become the main contributor to bilateral automotive trade for both exports and, more recently, imports. However, the TCA terms agreed in 2020 have put EV trade under a systemic, looming threat of crippling tariff, with relevant provisions revised in 2023 to prevent serious damage on bilateral exchanges of EVs.

On the export side, the value of outbound shipments of UK-made passenger cars has overtaken ICE exports to the EU since 2022, in the immediate aftermath of the pandemic and the TCA implementation. Today, EV exports are worth £6.3 billion, more than twice the value of ICE exports to the EU and 110% more than at the end of 2019. ICE exports have lost -65.1% of their value in the same period and have plateaued since 2022. The weakening of the EV export performance after the 2023 peak is in line with the industry's overall trend, although exports of HEVs to the EU have experienced an earlier and more significant decline compared with HEV exports to the rest of the world.

CHART 27 **INDEXED VALUE OF EXPORTS OF PARTS, CHASSIS, BODIES (JAN-20=100)**

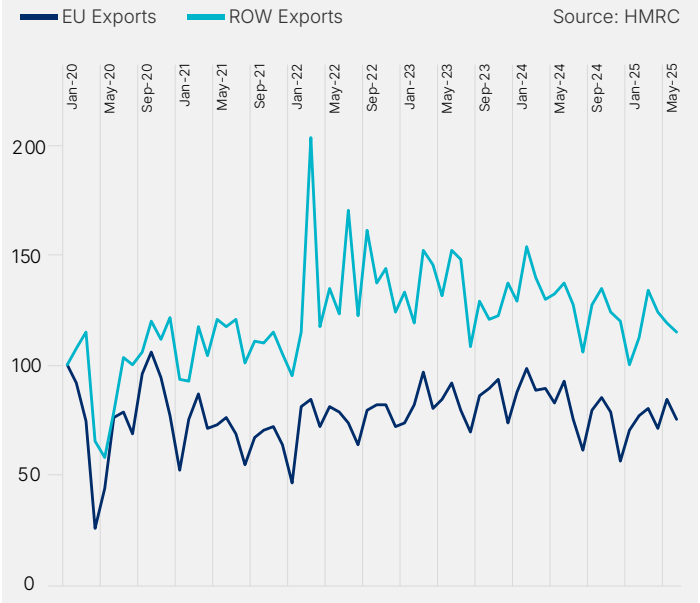
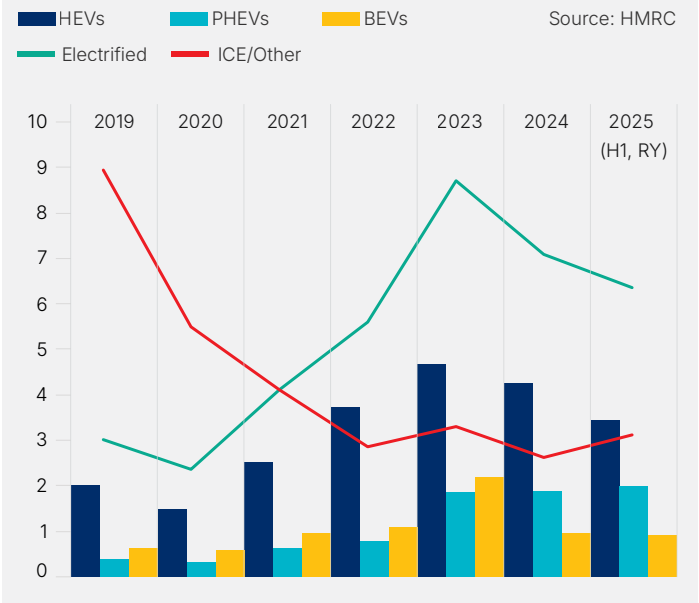


CHART 28 **PASSENGER CAR EXPORTS TO THE EU – EV VS ICE/OTHERS (£BILLIONS)**



On the other hand, while never regaining its pre-Covid level, imports of ICE models from the EU resumed their growth until 2023 and maintained their lead until this year, when, in the first half of 2025, EV imports first caught up and then surpassed ICE import values. In a historic milestone, EU manufacturers, the fathers of the internal combustion engine for cars, shipped EVs worth £17.6 billion to the UK in the first half of 2025, just £1 billion more that the value of EU ICE shipments. Today, EV imports from the EU are more than 1000% more valuable than at the end of 2019, while ICE imports have lost -41.7% of their pre-pandemic value.

Notably, a combination of factors including increased competitiveness of EU manufacturers, Tesla's decision to serve the UK from its German facilities and, possibly, the impacts of the UK's ZEV mandate, BEV imports from the EU are now narrowing the gap to the relative pace of imports from the rest of the world on a monthly basis, while already growing faster when considering all types of EVs.

Amid the challenges of a European automotive industry struggling to maintain its competitive edge in the face of fierce global competition on EVs and battery technologies, this is no mean feat.

WHAT HAS CHANGED IN TRADE WITH THE WORLD

While the UK's withdrawal from the EU has fundamentally changed bilateral trade relations, Brexit has deeply altered trade between the UK and the rest of the world, too. In particular, the conditions to unlock tariff benefits in trade with the UK's FTA partners are fundamentally different today than five years ago.

As a member of the EU, the UK could benefit from the application of EU FTAs, the world's largest network of preferential trade agreements. However, at the end of the transition period, EU FTAs could not apply to the UK anymore.

The conclusion of so-called continuity agreements (CAs) in 2021 with all the UK's largest preferential trading partners was a major achievement, avoiding the reintroduction of tariffs on automotive trade with more than 60 countries following the UK's withdrawal from the EU.

The main intention behind the conclusion of CAs was to "bilateralise" pre-existing agreements with minimal changes compared with the original EU FTAs. In this regard, the key to maintaining tariff benefits on imports and exports under new CAs was to find a solution to meet product-specific rules of origin without renegotiating each agreement to refit it to a post-Brexit suppliers' base.

To do so, the letter of each EU FTA origin chapter was maintained broadly unaltered. However, negotiators agreed to consider EU content as originating in the UK or in the territory of the CA partners in order to meet product-specific rules of origin. To date, the possibility to cumulate EU content remains crucial to avoid tariffs.

CHART 29 PASSENGER CAR IMPORTS FROM THE EU – EV VS ICE/OTHERS (£BILLIONS)

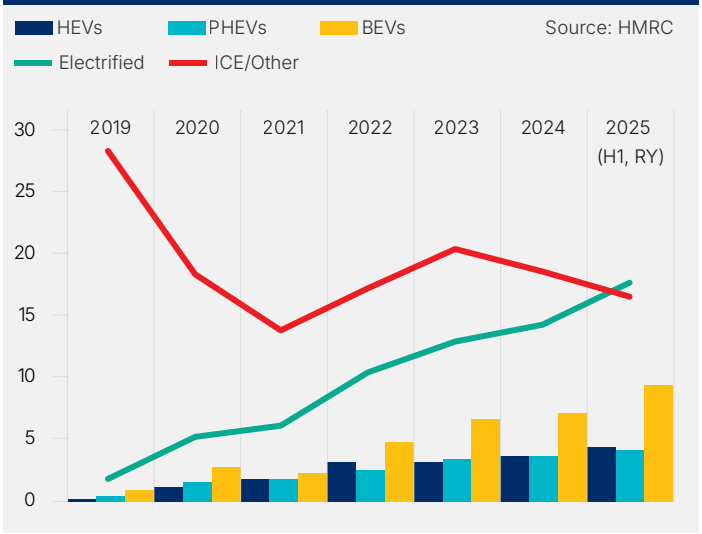


CHART 30 INDEXED VALUE OF EV IMPORTS – EU VS ROW (JAN 20=100)

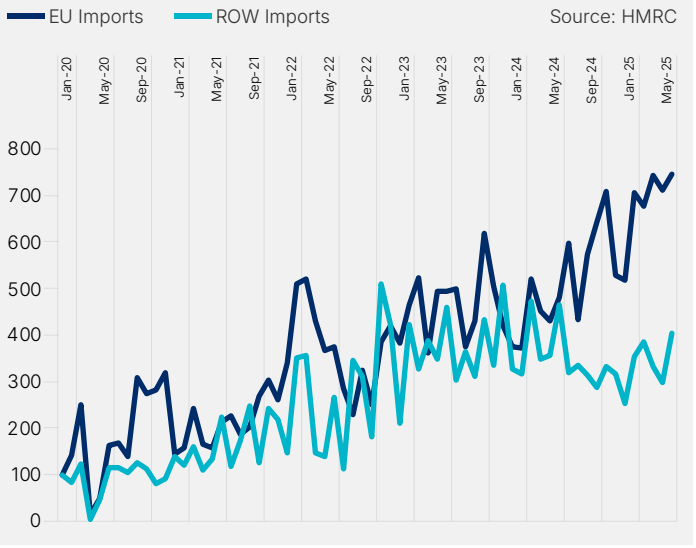
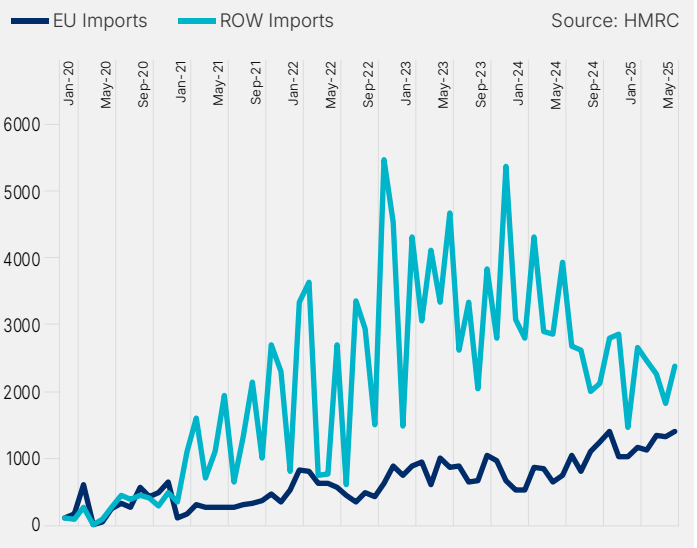


CHART 31 INDEXED VALUE OF BEV IMPORTS – EU VS ROW (JAN 20=100)



THE WAY FORWARD

While the industry's fundamentals remain solidly linked to the European regional trade footprint, the long shadow of Brexit continues to impact the sector. Uncertainty remains on future trade relations both with the EU and the rest of the world. In particular, the most innovative solutions that allowed EU-UK EV trade to flourish and avoided the reintroduction of tariffs in trade with CA partners risk turning into systemic challenges if left unaddressed.

On the one hand, while the TCA has certainly not represented an insurmountable obstacle to EV trade thanks to business-friendly origin requirements, it might well become the greatest obstacle to bilateral EV exchanges by the end of 2026, as much more demanding origin rules are set to come into effect. On the other hand, EU cumulation under several CAs is increasingly more difficult to apply as the respective FTA networks evolve.

With regard to the TCA, the challenge is not new, rather, it is the long-expected result of pursuing industrial policy through trade policy tools that are simply not fit for purpose. During Brexit negotiations, the EU and the UK recognised that the Anglo-European EV supply chain was too underdeveloped to meet typical origin requirements. Accordingly, they agreed that facilitative rules of origin should apply on a temporary basis.

Such rules allow EVs incorporating 40% EU-UK content to qualify for zero-tariff treatment. Crucial to reaching the threshold is the ability to source batteries that originate in the EU or in the UK, as the value of a battery can easily represent 30-50% of the entire value of the vehicle. The current rules on batteries are particularly accommodating, conferring preferential origin to batteries containing 30% EU-UK value-added or when assembled in the EU or in the UK from imported modules and cells. Far more stringent rules were set to apply already in January 2024. However, a much-needed three-year extension was agreed at the last minute, avoiding an additional tariff liability of £4.3 billion on EV carmakers, as battery manufacturers and producers of cathode active materials failed to localise production in the Anglo-European region in time to comply.

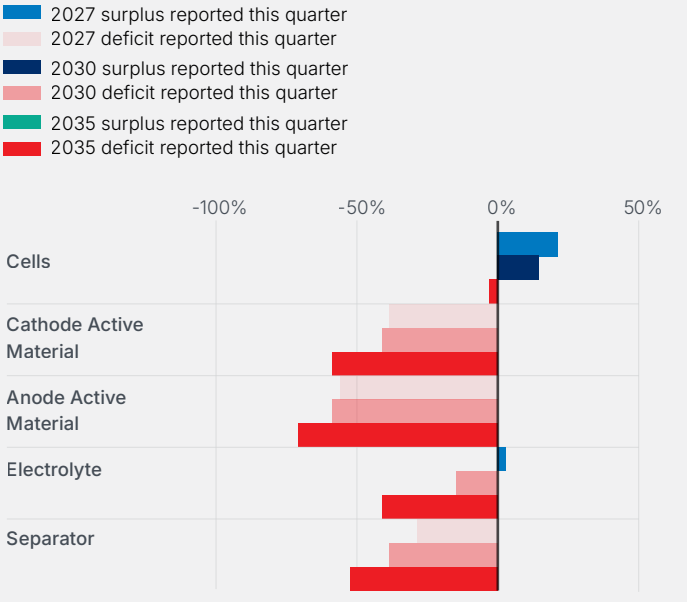
While the extension was warmly welcomed by the automotive industry, the parties agreed that the most demanding rules ever agreed by the EU and the UK on EVs, batteries and battery parts should enter into force from January 2027. For a battery to be considered as originating, the new rules will demand the full localisation of production of finished batteries, modules, cells, anodes, cathodes, separators and cathode active materials (CAM). Alternatively, 70% of a battery's value must originate in the EU-UK territory. By law, in a little over a year, a BEV or a PHEV that does not incorporate an originating battery cannot avoid tariffs, regardless of the remaining proportion of EU-UK content incorporated into the finished vehicle.

At present, the chances of meeting these requirements are slim, at best. The latest quarterly report from the Advanced Propulsion Centre highlights major production gaps throughout the European battery supply chain; the EU and UK manufacturing capacity would fall far below expected demand for key battery components, with capacity surpluses expected only in 2030 for cells and 2035 for separators. Any other component is expected to face a regional manufacturing capacity deficit, with the highly valuable CAM in deep red territory for the foreseeable future. In practice, imports of battery components remain indispensable to European EV production.

TABLE 02 **TCA RULES OF ORIGIN FOR EVS, BATTERIES AND RELATED COMPONENTS**

	1 Jan. 2021 – 31 Dec. 2026	2027 onwards
BEVs, PHEVs, HEVs (Passenger Cars, Commercial Vehicles, Buses)	60% Max Non-Originating Material (MaxNOM) / 40% Regional Value Content (RVC)	45% MaxNOM / 55% RVC and BEVs/PHEVs battery pack must originate in the UK/EU
Battery packs (PCs, CVs, buses)	- 70% MaxNOM – 30% RVC; or - CTSH; or - Assembly from non-originating battery cells or modules	- CTH (except from non-originating active cathode materials); or - 30% MaxNOM / 70% RVC
Cells, Modules, parts	- CTH; or - 70% MaxNOM / 30% RVC	- CTH (except from non-originating active cathode materials); or - 35% MaxNOM / 65% RVC

CHART 32 **EUROPEAN CAPACITY VS DEMAND ASSUMING EUROPE IS A SELF-SUSTAINING BLOC WITH NO IMPORTS OR EXPORTS (Q1 2025)**



Source: Advanced Propulsion Centre UK

OEMs and battery manufacturers could decide to maximise originating content in batteries incorporated into vehicles intended for EU-UK trade to reduce potential liabilities – through so-called "content steering". While technically possible, content steering is very challenging to operationalise for vehicles traded only between the EU and the UK. However, even assuming maximum content steering is achievable from an operational point of view, compliance rates are expected to remain low unless European CAM production picks-up pace and delivers to the volumes and quality needed to support EU-UK EV automotive trade – the Continent's largest and most valuable automotive trade relation. Crucial to this point is the ability to source CAM that certainly complies with the terms of the TCA. Unfortunately, uncertainty regarding the definition of what constitutes an originating CAM under the upcoming TCA rules is frustrating compliance efforts and compromising investment in this crucial segment. A reasonable definition conferring originating status to CAM that meets TCA origin rules already applicable to chemical compounds has been pending for years. To date, there is no agreement in sight on this point. The uncertainty leaves manufacturers in the automotive, battery and chemical industries in complete darkness on their ability to comply with the rules, upending multibillion investment and purchasing decisions.

Far from forcing localisation of battery supply chains, the constant threat of tariffs through the introduction of unattainable origin rules risk pushing businesses to devise contingency plans based on sourcing materials at the lowest costs. Ultimately, an FTA can only provide an opportunity to increase volumes and trade values for goods deemed sufficiently processed in the territory of the parties. An FTA cannot ensure self-sufficiency, no matter how punitive the alternative is. Reducing volumes through tariffs will only reduce the business rationale for localisation, while maintaining existing market access on an indefinite basis can facilitate regional investment, if accompanied by a sound industrial strategy. In this sense, enhanced bilateral collaboration on research, development and joint industrial initiatives could deliver more than any ultra-restrictive origin rule.

For trade beyond the EU, preferential trade under continuity agreements (CAs) is highly dependent on the continued ability to cumulate EU content. But, while agreeing EU cumulation was a major diplomatic success in 2021, the implementation of EU cumulation provisions is subject to two major challenges. First, in some cases, cumulation was allowed on a strictly temporary basis. Second, the key condition to apply it is that EU materials must meet rules of origin that are identical to those set under the UK CAs.

RECOMMENDATION 02

AN UNWAVERING COMMITMENT TO AVOID TARIFFS ON EU-UK EV TRADE

The UK government should be driven by an unequivocal trade objective: to do everything necessary to avoid the application of tariffs and non-tariff barriers on bilateral EV imports and exports. Reducing reciprocal EV market access would fundamentally undermine the respective decarbonisation agendas, subtract resources for further investment and represent an insurmountable obstacle to future EV growth. Instead, enhanced collaboration on our respective industrial and decarbonisation strategies should be pursued.

RECOMMENDATION 03

AGREE TO A WORKABLE DEFINITION OF ORIGIN RULES FOR CATHODE ACTIVE MATERIALS

With the absence of shared guidance a little over one year from the planned implementation of 2027 rules of origin already causing major damage to investors and manufacturers, the UK and EU governments should work with the automotive industry to agree a reasonable definition of what constitutes an originating CAM. The definition must be in line with the rules applicable to chemicals compounds under the TCA.

The automotive industry has already suffered from the lapse of a temporary EU cumulation clause. Since April 2024, following the UK's decision to suspend renegotiations with Canada due to major divergences on agricultural market access, tariff benefits can now only be unblocked by using exclusively British and Canadian content. For finished passenger cars, the current requirement is a combined 55% value-added, with all materials coming from the EU considered non-originating. As a result, with minor exceptions, virtually all vehicles shipped to Canada are now likely facing a 6.1% import tariff. The recent announcement that Canada will seek to ratify the UK's accession to CPTPP is welcome, but CPTPP is unlikely to solve the systemic issue if negotiations for a modernised deal do not resume and the ability to cumulate EU content is not reinstated for the time needed to bring a new agreement into effect.

A similar scenario might materialise in trade with South Korea. Last year, the parties agreed to avoid a cliff-edge and extend the possibility to cumulate EU content until the end of 2025, as the UK and South Korea finalise negotiations on an upgraded agreement. However, negotiations are still ongoing, However, negotiations are still ongoing and further talks are expected to take place in Autumn 2025, just a few months from the expiry of the EU cumulation extension. Finalising negotiations and ratifying a new agreement within this time frame seems unrealistic. A bridging solution to avoid tariffs until a new agreement can take effect is crucial. Otherwise, the industry will face the reintroduction of an 8% tariff on imports into this major Asian market and, possibly, a 10% tariff on a significant portion of inbound shipments into the UK.

While the expiry of EU cumulation clauses is a major concern, the precondition to meet identical rules of origin as those set by the UK CAs has always created systemic challenges, with the TCA setting rules considerably different from most CAs. However, EU suppliers can confidently declare that their products meet CA rules when these mirror current EU FTA origin requirements with common preferential trading partners. On the contrary, risks escalate when origin requirements diverge.

RECOMMENDATION 04

MONITOR COMPLIANCE RATES WITH 2027 EV RULES OF ORIGIN

The UK government, the EU commission and the European automotive industry must conduct an open assessment of expected compliance and act responsibly, taking into account uncertainty regarding the interpretation of 2027 rules.

TABLE 02 **TCA RULES OF ORIGIN FOR EVS, BATTERIES AND RELATED COMPONENTS**

EU cumulation	Agreement
Safe	CARIFORUM-UK Economic Partnership Agreement
	Eastern and Southern Africa (ESA)-UK Economic Partnership Agreement
	Free Trade Agreement between the UK, Iceland, Liechtenstein and Norway
	SACUM-UK Economic Partnership Agreement
	UK-Andean Countries Trade Agreement
	UK-Cameroon Economic Partnership Agreement
	UK-Central America Association Agreement
	UK-Côte d'Ivoire Stepping Stone Economic Partnership Agreement
	UK-Faroe Islands Free Trade Agreement
	UK-Ghana Interim Trade Partnership Agreement
	UK-Japan Comprehensive Economic Partnership Agreement
	UK-Kenya Economic Partnership Agreement
	UK-Pacific Economic Partnership Agreement
	UK-Singapore Free Trade Agreement
	UK-Switzerland Trade Agreement
	UK-Switzerland Liechtenstein Trade Agreement
	UK-Vietnam Free Trade Agreement
At risk	UK-Albania Partnership, Trade and Cooperation Agreement
	UK-Chile Association Agreement
	UK-Egypt Association Agreement
	UK-Georgia strategic Partnership and Cooperation Agreement
	UK-Israel Trade and Partnership Agreement
	UK-Jordan Association Agreement
	UK-Kosovo Partnership, Trade and Cooperation Agreement
	UK-Lebanon Association Agreement
	UK-Mexico Trade Continuity Agreement
	UK-Moldova Strategic Partnership, Trade and Cooperation Agreement
	UK-Morocco Association Agreement
	UK-North Macedonia Partnership, Trade and Cooperation Agreement
	UK-Palestinian Authority political, Trade and Partnership Agreement
	UK-Serbia Partnership, Trade and Cooperation Agreement
	UK-South Korea Trade Agreement
	UK-Tunisia Association Agreement
	UK-Ukraine political, free Trade and strategic Partnership Agreement
Suspended	UK-Canada Trade Continuity Agreement

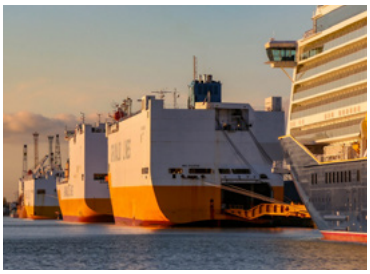
At present, rules of origin incorporated into 16 CAs are either at risk of diverging or have already diverged from modernised EU FTAs. From a legal point of view, the divergence per se does not invalidate CA cumulation provisions. In principle, an EU supplier can still claim that its products meet the CA's origin requirements. However, divergence will make it far more difficult for the same supplier to ensure compliance with this requirement, as not only the finished part, but all its EU-originating subcomponents must meet CA rules that are eminently different from the rules set by upgraded EU FTAs. As the EU has concluded upgraded FTAs with Chile and Mexico based on more modern origin requirements, divergence between the new EU agreements and UK CAs with these two key Latin American trading partners is inevitable. Even more concerning is the expected divergence between UK CAs and EU FTAs with 14 trading partners in the broader European region when the reformed Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin (PEM) becomes the only set of origin rules applicable between the EU and these trading partners from January 2026. While CPTPP could partially mitigate impacts on trade with Chile and Mexico, continued tariff-free trade with the PEM parties will largely depend on the industry's ability to cumulate EU content. Should EU suppliers of key components decide not to offer an origin declaration to PEM-based OEMs using UK CAs, there is a tangible risk that finished vehicles will fail to qualify for preferential treatment. UK exports to 14 PEM parties could face additional tariffs typically ranging between 5% and 17.5%, with tariff peaks of 135% on certain finished passenger cars entering Egypt.

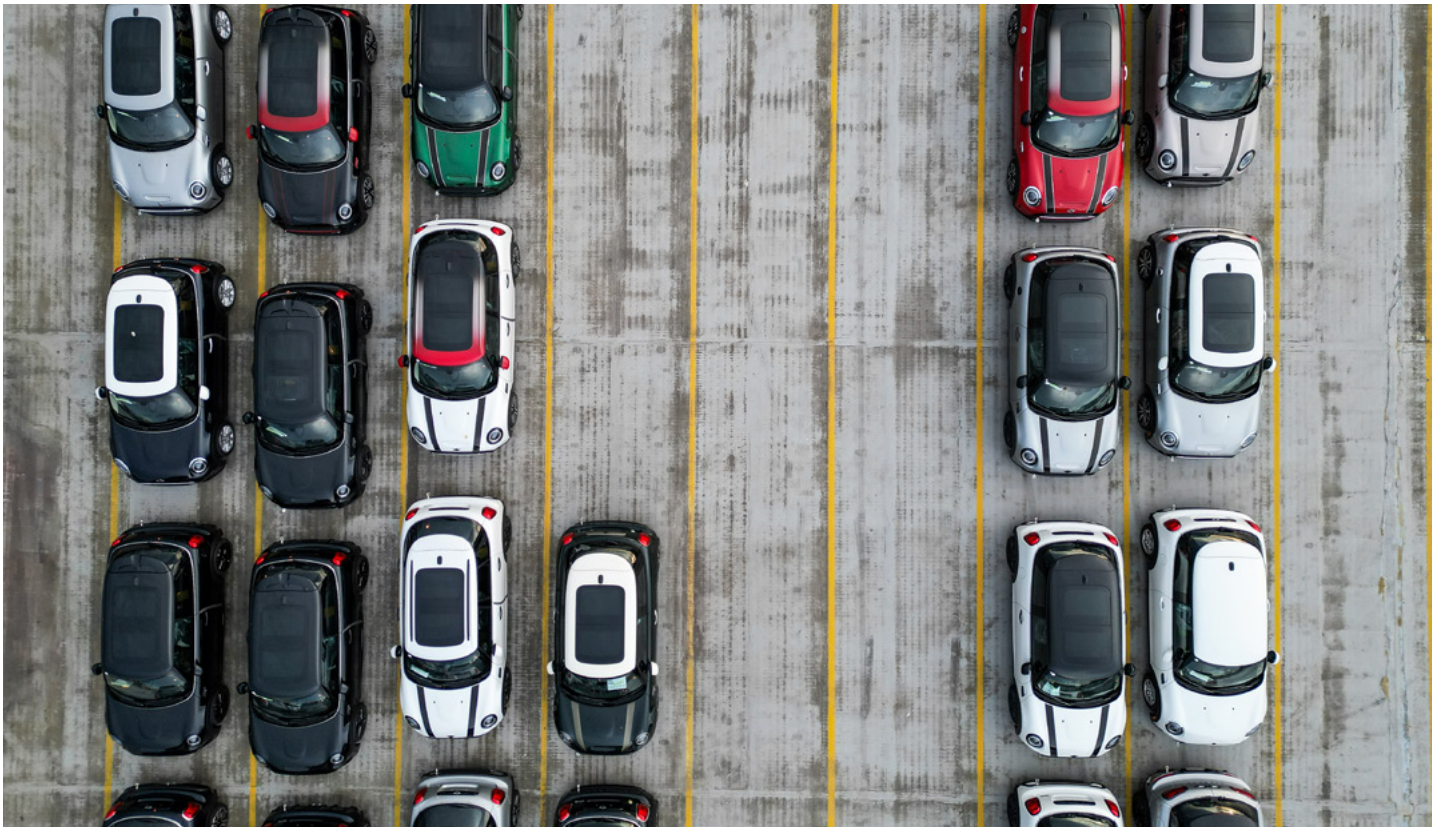
The most obvious solution is for the UK to seek to re-join PEM to provide much-needed long-term stability in trade with the EU and all common PEM parties. Also, the reformed PEM rules are far more modern and business-friendly compared with those set by UK CAs. Yet, the solution remains elusive. The UK has acknowledged its interest in re-joining PEM in its recently published trade strategy. However, it has only committed to consult with businesses and PEM parties about this possibility, rather than offering a firm commitment to do anything possible to re-join PEM and fast-track negotiations to overcome any potential concern from other PEM parties.

RECOMMENDATION 05

FAST-TRACK NEGOTIATIONS TO RE-JOIN PEM

Deliver the UK trade strategy objective to consult with interested stakeholders, then fast-track negotiations with the EU and other PEM parties to re-join PEM. PEM should be offered as an alternative to the rules incorporated into the TCA and the UK-Türkiye FTA – which mirrors the TCA's origin requirements – while reformed PEM rules should fully replace origin chapters with the remaining PEM parties.





Joining PEM would not alter the overall post-Brexit framework, as trade with the EU and the Euro-Mediterranean region would continue to take place under the terms of existing FTAs. It would, however, safeguard the industry's ability to cumulate EU content and solve the systematic challenge of rules of origin divergence across the broader European region, thanks to the ability to cumulate PEM content - including the EU's - across all common signatories. Likewise, it would allow UK suppliers to offer originating products for use in the PEM region.

It would also offer much-needed stability on regional EV trade, as the reformed PEM sets stable, predictable and well-established rules of origin for finished vehicles, batteries and battery parts without diluting the need to localise the most valuable elements of the battery supply chains. Finally, while formalities under PEM are more burdensome than formalities set by the TCA and the UK-Türkiye FTA, offering PEM rules as an alternative rather than replacing the rules set by these two deals would obviate the challenges for businesses that trade exclusively with the EU and do not need PEM cumulation.

Collectively, imports and exports of finished vehicles, engines and typical parts with all at risk countries and Canada was worth over £4.8 billion in 2024. For at risk PEM trading partners, total automotive trade was valued more than £980 million.

Brexit has given the UK an independent trade policy: it is time to use that freedom to ensure UK automotive businesses and consumers can trade with its closest and largest trading partners on a stable, predictable and cost-effective basis.

RECOMMENDATION 06

FINALISE NEGOTIATIONS WITH SOUTH KOREA AND AVOID TARIFF GAP

Conclude negotiations on an upgraded UK-South Korea FTA and agree bridging solutions to avoid the reintroduction of tariffs from January 2026. These could include an extension of current EU cumulation clauses or the provisional implementation of the new agreement while the parties complete formal ratification procedures.

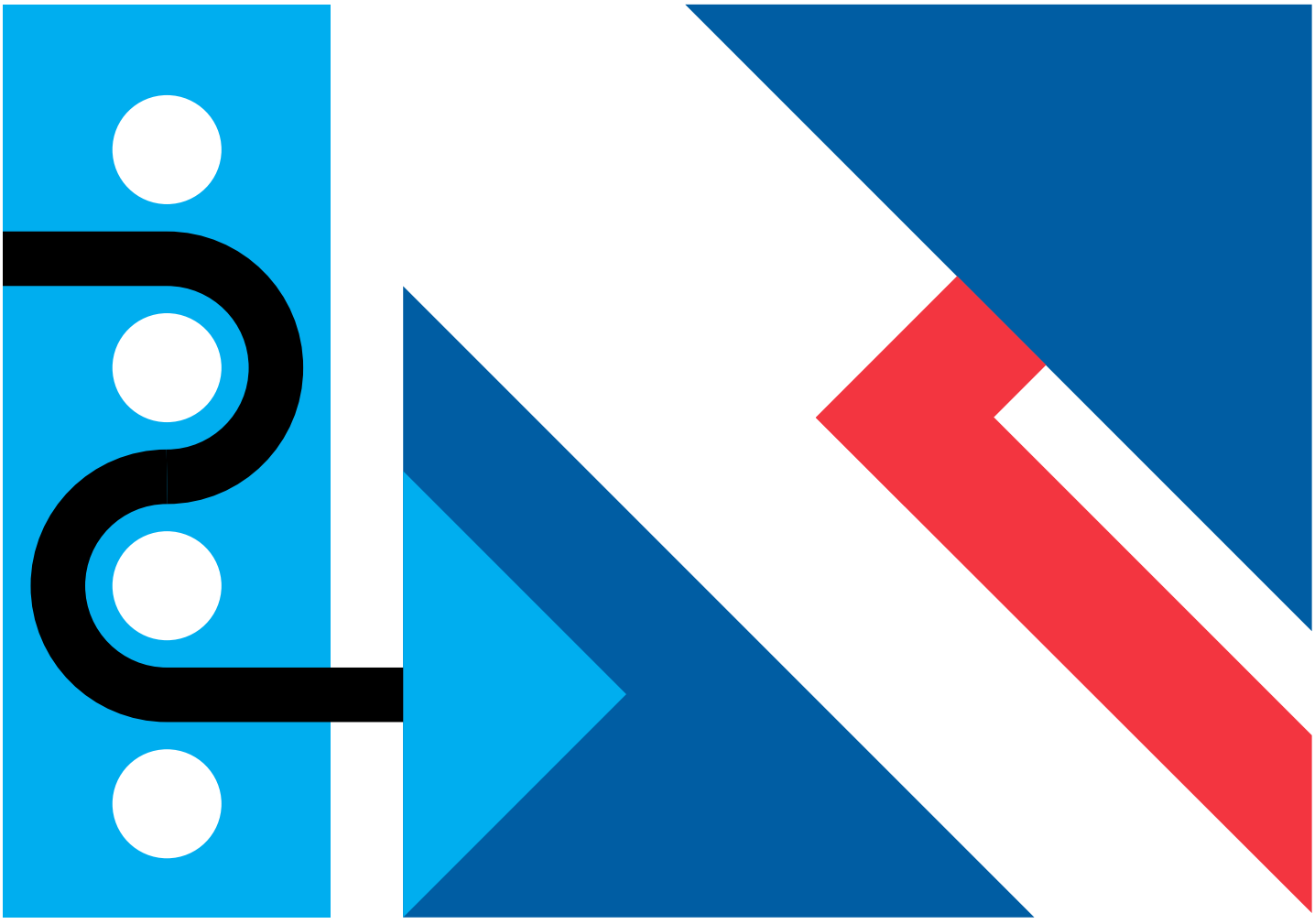
RECOMMENDATION 07

FIX THE BILATERAL TRADE RELATIONSHIP WITH CANADA

No efforts should be spared to re-establish preferential treatment in exchanges with such a significant trading partner at bilateral and regional level. A prompt ratification of the UK's CPTPP accession could be prioritised as a first step towards a normalisation of Transatlantic trade relations.

However, the recently announced UK-Canada Economic and Trade Working Group must pave the way to resume negotiations on an enhanced bilateral FTA while reinstating EU cumulation clauses and origin quotas in the meanwhile.

CHAPTER 04
UK AUTOMOTIVE AND THE NEW UK TRADE STRATEGY



- Intensively traded sectors such as automotive demand significant attention in a more conflictual and fragmented global trade environment, with the need to open market access for future technologies and build stable trading relations with key trading partners, including the EU, the US and China.
- Pivoting from an FTA-centred agenda to a broader trade toolkit offers new opportunities, including the possibility to join the PEM Convention and delivering mutual recognition agreements where appropriate. Reducing automotive tariffs is a growth-enabling factor, while addressing complex automotive regulatory barriers requires a step-change in terms of efforts and resources.
- The new trade strategy commits to invest further in UK border modernisation and sets additional funding to tackle non-tariff barriers and boost export finance capabilities. However, it falls short of relaunching export promotion activities and overhauling business engagement mechanisms.

THE NEW UK TRADE STRATEGY

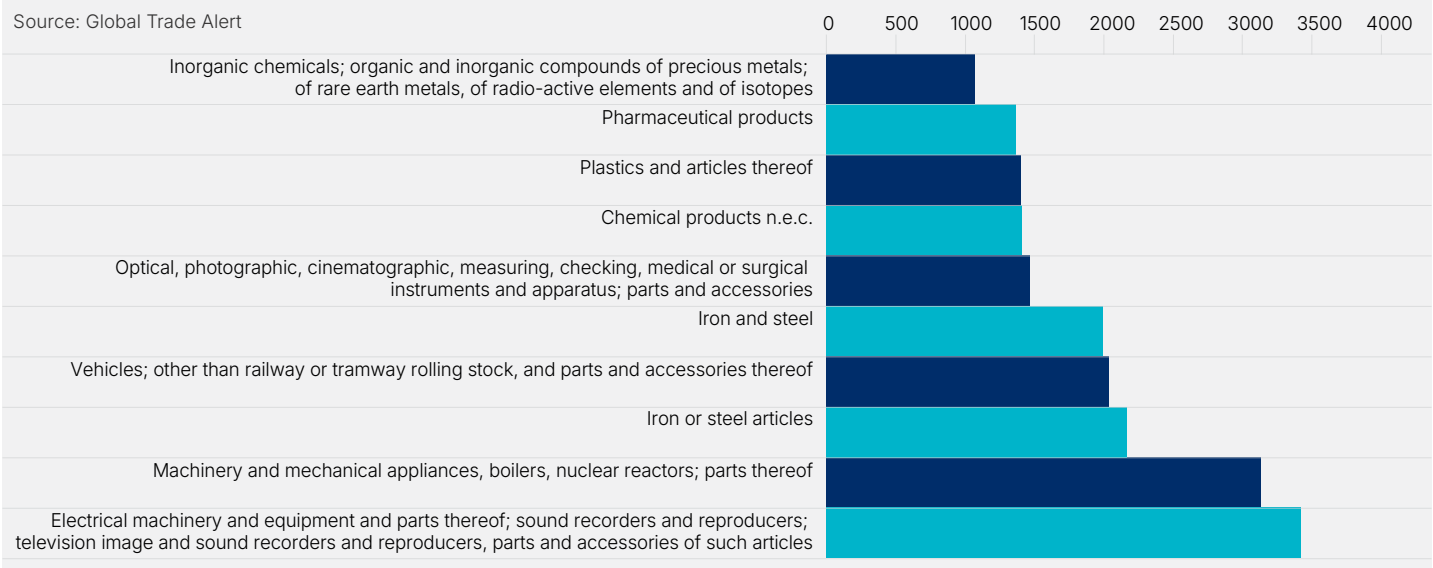
The UK has published a new trade strategy aimed at guiding the government's trade agenda in an increasingly conflictual and unpredictable global trade environment.

The strategy identifies trade in services as the UK's main strength in international trade relations. However, it also acknowledges that trade in goods remains fundamental for the UK economy in general and for its position in world' trade in particular, as manufacturing is much more intensively traded than services.

The recognition of Advanced Manufacturing, as identified in the new UK Industrial Strategy, as a key growth sector for UK exports is welcome. However, according to the accompanying global trade outlook, the global automotive industry might also experience a decline in its world's share of imports unless a "resurgence in interest in new energy vehicles" will alter the trend.

The strategy emphasises the importance of international trade to ensure the UK becomes a clean energy superpower, highlighting dependency on imports of batteries and other intermediate and raw materials as a double-edge sword for high-end advanced manufacturers.

CHART 33 **NUMBER OF HARMFUL MEASURES BY AFFECTED UK PRODUCTS (2015-2025)**



These points clearly resound with key interests of UK Automotive. Any country aspiring to play a significant role in the global trade arena cannot underestimate the importance of the automotive industry. Trade in automotive products is universally considered as a key indicator of the state of health of global trade in goods. The sector's contribution to global trade is so significant that its performance is considered a bellwether of global merchandise trade. The importance of the automotive sector is no less relevant for the UK's overall trade performance. Last year, without exports of automotive products, the UK would have lost its position as one of the world's top four exporters and slipped to the sixth place, behind France and the Netherlands.

Yet, as an intensively traded sector, automotive is open to global opportunities and associated risks. Precisely because trade in services is generally more agile than trade in goods, the strategy should have recognised the need to pay particular attention to the impacts of trade-restrictive measures on manufactured products.

UK Automotive is among the sectors that are facing an ever-rising number of harmful measures, jumping ahead of highly sensitive industrial goods over the last 10 years, including steel and iron products and just behind iron and steel derivatives.

Despite the headwinds, UK automotive trade decline is far from inevitable. With exports to more than 140 countries, the sector is well positioned to capture future global growth in Europe, Asia and North America. However, the sector's future success largely depends on its ability to quickly transition to manufacturing of low and zero-emission technologies, create domestic value-added through investment in the UK in line with the government's industrial strategy, and on the government's ability to create a truly enabling international trade environment, pursuing stability and new market access opportunities for automotive products that will dominate international trade flows in the future.

MULTILATERAL TRADE AND THE ROLE OF THE EU, THE US AND CHINA

The strategy recognises the challenges faced by an open economy in an increasingly protectionist and fragmented global trade environment. Against this background, government should ensure that as many trading partners as possible will continue to abide by the principles of non-discrimination and national treatment. In this sense, the commitment to join the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) is a positive step, together with the reinstated ambition to help unblock the WTO dispute settlement function and spearhead efforts to reform the organisation.

The strategy remains geographic-agnostic, not to prioritise certain trading partners over others; however, it recognises the role of the world's three largest trading blocs – the EU, the US and China – as pivotal to the UK's trade outlook.

On the EU, government has acknowledged that it will remain by far the UK's largest trading partner, while recognising the damaging impacts of Brexit on the bilateral trade relation for the first time. The strategy highlights the outcome of the first EU-UK Summit in May 2025. It also outlines the intention to use annual Summits to oversee the implementation of the TCA and seek further cooperation beyond the TCA.

While annual summits represent a significant improvement in bilateral relations, bilateral dialogue should not be restricted to items agreed within that framework. As mentioned, the key priorities for the UK automotive sector remain addressing trade in EVs and establishing a solid, predictable trade relationship with the EU and the broader European region by joining PEM, neither of which were addressed in the first

RECOMMENDATION 08

A FORWARD-LOOKING AUTOMOTIVE TRADE STRATEGY

Government should put Automotive at the centre of its trade agenda, seeking to reduce tariff and non-tariff barriers on automotive products likely to drive future growth, including electric and hydrogen-powered vehicles, connected and automated vehicles and related technologies.

RECOMMENDATION 09

DELIVER AN ENHANCED EU-UK REGULATORY PARTNERSHIP

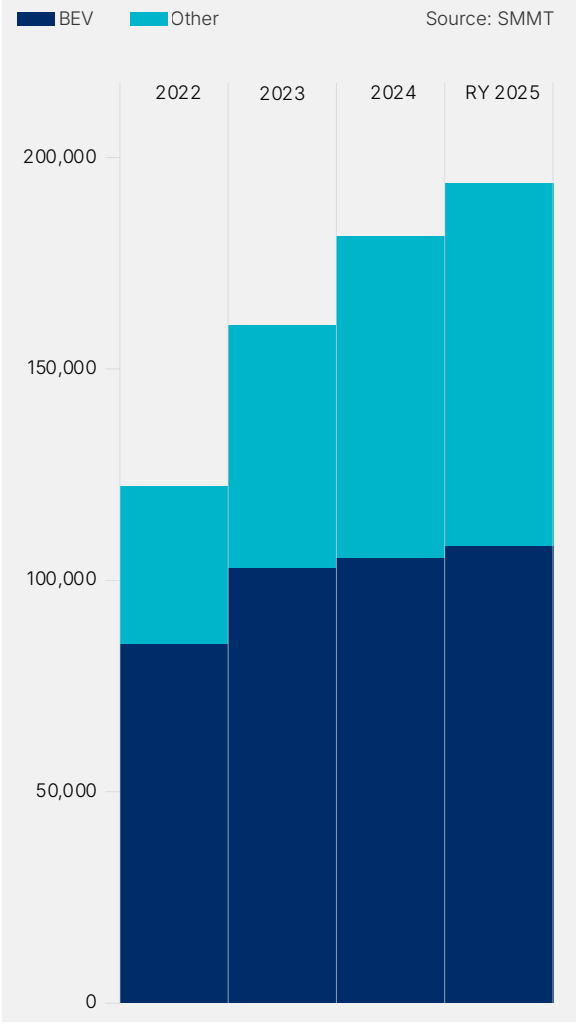
Link the respective Emission Trading Schemes (ETS) and exempt covered goods from administrative burdens resulting from the EU and UK Carbon Border Adjustment Mechanisms (CBAM). Initiate discussions to ensure that the same vehicles can be sold in UK and EU markets, wherever possible, utilising internationally harmonised technical standards and / or regulations under the auspices of the United Nations or bilaterally aligning other regulations where appropriate.

RECOMMENDATION 10

SEEK PROGRESSIVE IMPROVEMENTS ON THE EPD

Government and industry should monitor the EPD implementation and identify potential shortcomings. Government should continue to engage with the sector and US counterparts to explore potential options to limit uncertainty while maximising TRQ utilisation and provide reasonable growth margins. Government should also aim to streamline and simplify the application of reduced tariffs on UK-made parts.

CHART 34 **IMPORTS OF CHINESE-BUILT PASSENGER CARS BY FUEL TYPE**



Summit. These priorities must be addressed in parallel to progressing the annual Summit agenda as the Summit and relevant TCA working groups seem the appropriate fora to advance discussions on an enhanced regulatory partnership, including on carbon emission policies and technical regulations impacting trade of manufactured goods.

Looking at the other side of the pond, the strategy emphasises the long-standing and balanced relationship between the UK and the US. It emphasises the importance of securing the new Economic Prosperity Deal (EPD) following the implementation of reciprocal and sectoral tariffs on imports into the US, and it reaffirms the government's intention to seek an even more ambitious deal covering substantially all trade.

For the UK automotive industry, the EPD and the implementation of its automotive-related commitments represent a major diplomatic success. At the time of writing, while new deals between the US and other major automotive hotbeds such as the EU, Japan and South Korea have been announced, UK-built vehicles and UK parts used to repair them remain the only automotive goods that can benefit from a reduction from 27.5% to 10% when imported into the US.

While the EPD was a successful, pragmatic result delivering on the most immediate industry priorities, it could not avoid a deterioration of trading conditions, with much higher tariffs charged today compared with tariffs exacted at the beginning of the year. Moreover, the implementation of a tariff-rate-quota (TRQ) system is complex, and it fundamentally changes the trading terms between the UK and its second largest automotive export destination. Uncertainty is intrinsic in any TRQ system, as applicable tariffs can only be known for sure at the time of clearing US customs. Although achieving a comprehensive trade agreement with the US remains the polar star of the government's long-term agenda, monitoring impacts of the EPD implementation and seeking progressive improvements is a key short-term priority.

While 100,000 units cover almost the entire export volumes recorded in 2024, tariffs remain at the highest level for units imported outside of the quota. Uncertainty is particularly felt by businesses that rely on a strict built-to-order business model, as they cannot build to stock and ensure the bulk of their exports can qualify for the lower in-quota tariffs. Quarterly quota administration from 2026 might partially mitigate against this risk, but unpredictability remains unavoidable and quarterly windows are not free of challenges on their own merit.

Moreover, while the EPD delivered a 10% flat tariff on UK parts, providing evidence that these parts are used for servicing UK-made vehicles is problematic and represents a potential compliance risk.

Finally, the strategy seeks to strike the right balance on future trade relations with China, with the stated intention to let trade flourish in some areas, including imports of intermediate goods for advanced manufacturers, while seeking to rebalance relations by growing exports and, when needed and supported by evidence, tackle unfair trade practices. To this end, government has reinstated high-level political dialogue, relaunching initiatives such as the Economic and Financial Dialogue and announcing the intention to hold a Joint Economic and Trade Commission.

For the UK automotive sector, the relationship with China is no less complex. China has held its position as the world's largest automotive market and car manufacturing hub for several years and, after making significant inroads in European, Asian and South American markets, China became the largest car exporter, too, overtaking Japan for the first time in the first quarter of 2023, a position it has held ever since.

China's pivot from a largely inward-focused production centre to the world's largest export hub is likely to prompt increased scrutiny on the sector's business model and, in particular, its industrial strategy over the last two decades. The rapid increase in market shares of new Chinese entrants – in particular in the EV segment – bears a tangible risk of exacerbating tensions in trade between China, Europe and North America. This is further compounded by China's dominant position in the production of batteries, related parts and critical raw materials sourcing and processing.

The UK has, to date, taken a notably different approach to Chinese manufactured vehicles than several competitor markets. The UK automotive industry continues to welcome new entrants and seeks to attract technology investment, particularly significant for the e-mobility supply chain. In this context, imports from China have boomed after the end of the pandemic. As noted, BEVs are not the only driver of Chinese imports' performance, with Chinese ICE and hybrid imports growing significantly since 2023.

The UK already has Chinese investors including Geely, Changan, Envision, Nio and others contributing to battery production, R&D facilities and, in some cases, small volume vehicle production. With the UK's engineering capability, the largest European BEV market in 2024 and the second largest car market overall in Europe, there is a strong case to make for further investment, providing the overall competitiveness framework is compelling.

However, while significant opportunities exist, trade relations must remain balanced to be sustainable. Reasons for concern include potentially unfair competitive advantages provided to Chinese-based manufacturers and an underwhelming export performance, with UK car export volumes to China declining from over 57,000 units in 2021 to 40,000 units in 2024.

Moreover, the industry is facing major difficulties to source critical minerals and other materials from China after the imposition of export controls. Lengthy licensing procedures are particularly impactful on the production and distribution of electric motors. Red tape is further stressing a supply chain that had already seen delivery times increasing significantly following the escalation of hostilities with Houthi rebels in the Red Sea and the forced rerouting of commercial vessels to sail around South Africa. Finally, the lowering of China's luxury car tax from 1.3 million yuan to 900.000 yuan is likely to have a significant chill-down effect on exports of UK premium models.

Given Chinese auto makers current strength, attracting new manufacturing investment to the UK could help shore up UK production volumes and the supply chain, and go some way to achieving the Industrial Strategy's ambition of 1.3 million vehicles produced in UK by 2035.

RECOMMENDATION 11

MAINTAIN A BALANCED, FAIR AND EQUITABLE TRADE RELATIONSHIP WITH CHINA

Rekindle political engagement to ensure UK and Chinese manufacturers can mutually benefit from the bilateral trade and investment relationship. Continue to use in-post resources to streamline licensing applications. Spare no efforts to ensure UK exporters do not become collateral damage among escalating trade tensions between China and key trading partners.

A BROADER TRADE TOOLKIT

The new strategy confirms that the UK will pivot from an FTA-focused agenda to a broader range of binding and non-binding instruments aimed at delivering growth. Among the various tools under consideration, the strategy mentions the all-important need to further consider joining PEM, a key priority of the sector already addressed in this paper (see Chapter 3).

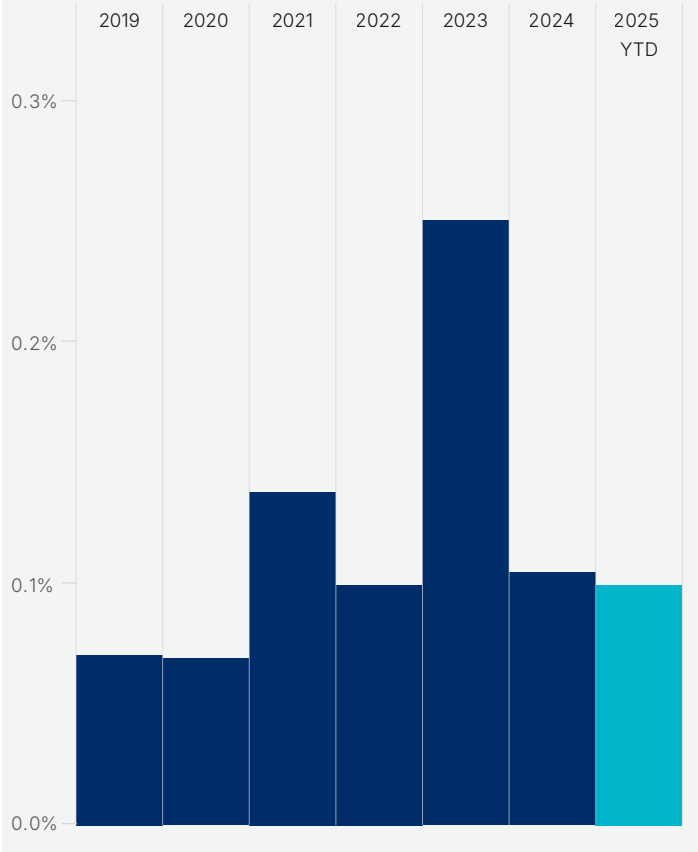
For years, the automotive industry has maintained that FTAs are needed if the parties intend to reduce tariff-barriers on the basis of workable origin requirements, as virtually any other area included in comprehensive agreements can be addressed with different instruments. However, tariffs exist and can preclude major export opportunities in markets with large untapped potential such as Brazil, Argentina, Indonesia and Thailand. For a mission-led government focused on delivering growth, the removal of tariffs must remain a key objective.

In this sense, the conclusion of the UK-India FTA is welcome news, as trade with this Asian giant is the poster child of lost opportunities due to insurmountable tariff barriers. Last year, the UK shipped fewer than 1,000 units to a market of over one billion potential customers, with tariffs on passenger cars typically ranging between 60-100% on most vehicles. India consistently represented around 0.1% of all UK car exports.

After ratification, Indian importers will see hefty tariffs on parts fully phased out in 10 years and, for the first time ever, will be able to benefit from the partial liberalisation of India's finished vehicle market. Likewise, UK-manufacturers and consumers can benefit from full liberalisation of Indian parts and finished vehicles as soon as the FTA enters into force, except for Indian EVs that will benefit from tariff reductions at a later stage, in line with delayed tariff cuts applicable on UK EV exports.

CHART 35 **UK CAR EXPORTS TO INDIA (% SHARE OF TOTAL EXPORTS)**

Source: SMMT



RECOMMENDATION 12

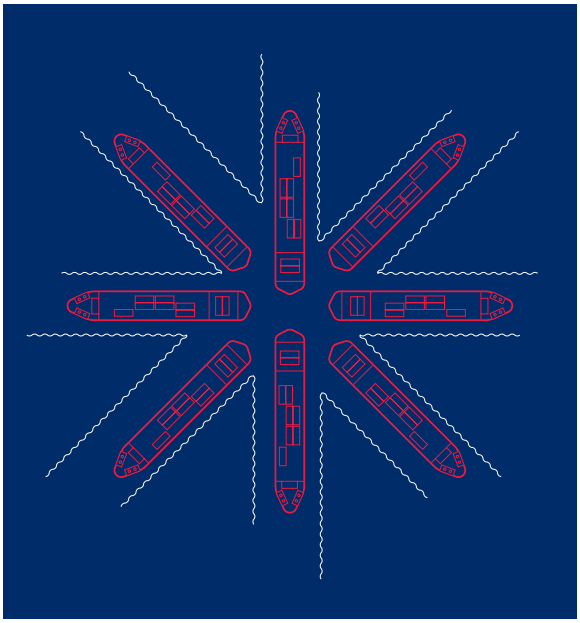
ENSURE A SWIFT IMPLEMENTATION OF THE UK-INDIA FTA

Advance ratification procedures at speed and conclude discussions with India on TRQ implementation and origin claims well ahead of entry into force.

RECOMMENDATION 13

SEEK FURTHER TARIFF REDUCTIONS WITH NEW AND OLD FTA PARTNERS

Progress UK-GCC negotiations to secure an ambitious agreement removing tariffs on the basis of workable origin requirements. Utilise tariff reviews to seek further tariff reductions and, when appropriate, seek mutually beneficial improvements in areas such as rules of origin to provide enhanced market access to both importers and exporters.



However, the agreement is complex and the result of some significant compromises. In particular, UK ICE exports will be subject to a TRQ from entry into force, with variable volumes over the next 10 years depending on engine capacities and residual tariffs on in-quota imports declining to 10% only after five years. For EVs, TRQs will apply both on imports and exports from year six and will reach their final volumes after 15 years from entry into force, with volumes allocated through a price-band systems and an end-state 10% in-quota tariff reached only in year 10.

The administration of these TRQs will be complex, with the need to ensure transparency and fairness in their application. Details on how the parties intend to administer the TRQs are yet to be defined. The absence of clarity on TRQ administration is an immediate issue for UK exporters of ICE vehicles, as equivalent Indian products could access the UK market without quota restrictions.

Moreover, UK exporters and producers issuing an origin declaration must adhere to a complex authentication process going well beyond traditional authorisation mechanisms set in previous FTAs. Many details of the process are yet to be agreed and must be in place well ahead of EIF if UK exporters are to benefit from the agreement from day 1. On the contrary, Indian producers will be able to offer typical origin proofs without facing the convoluted authorisation process applied to UK manufacturers. Finally, a lengthy ratification process risks having a cooling effect on sales and reduce export opportunities, in particular for ICE vehicles, as UK manufacturers seek to transition to electrified models over the next few years.

Beyond India, the strategy reaffirms the UK government's commitment to conclude ongoing negotiations with a number of trading partners, including the Gulf Cooperation Council (GCC). While tariff barriers in the GCC region are far less impactful than in India, the conclusion of a UK-GCC FTA could remove a 5% tariff in a growing region, if the parties agree on workable origin requirements. Furthermore, government is seeking to leverage tariff review processes with existing trading partners. This is particularly important for bilateral relations with South Africa, as residual tariffs on finished vehicles often mean UK manufacturers decide not to use the existing FTA at all.

Among non-FTA tools listed in the strategy, the UK automotive industry can benefit from Digital Trade Agreements and from a new focus on removing regulatory barriers through, where appropriate, new Mutual Recognition Agreements (MRAs), sector-specific instruments and regulatory partnerships. The establishment of the Ricardo Fund can provide muscle to a more ambitious action plan in these areas.

The UK automotive industry is facing a large variety of technical barriers to trade, and their impacts can potentially nullify tariff benefits or entirely preclude market access regardless of FTA commitments. Unfortunately, addressing automotive regulatory challenges is complex, as testified by the failure to agree automotive-specific annexes even in most recent FTAs concluded with like-minded partners like Australia.

Regulatory cooperation is crucial to address a wide range of regulatory challenges.

From a purely type approval perspective, where the UK and a trading partner are both parties to the relevant UN conventions for parts and components, potential regulatory divergences are limited to the relatively small number of national / regional regulatory requirements supplementing or adding to the UN standards. This was the case underpinning negotiations of the Automotive Annex of the EU-Japan FTA mirrored in the UK-Japan CA.

Where the trading partner is not a signatory to the relevant UN conventions, consideration should be given to the feasibility of mutual recognition of regulations and / or approvals where appropriate.

Mutual recognition requires an extensive assessment of the respective automotive regulatory frameworks. When these are not broadly compatible, mutual recognition of finished vehicle type approvals or equivalent outcomes becomes challenging, with the need to assess each individual regulation applicable to vehicles subsystems and components.

RECOMMENDATION 14

STEP UP ENGAGEMENT ON AUTOMOTIVE REGULATORY BARRIERS

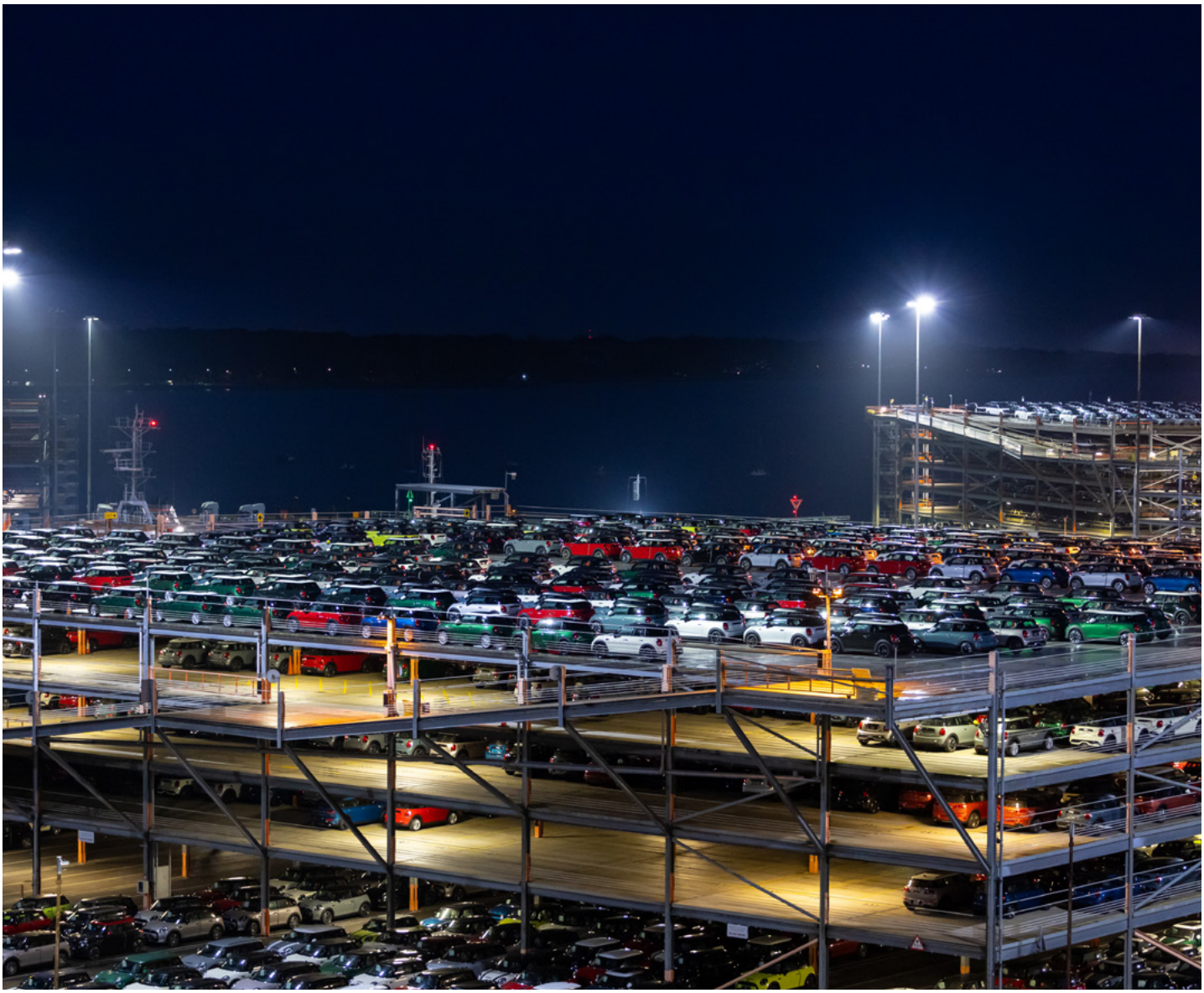
Together with industry, identify key regulatory barriers and engage with relevant trading partners to favour wider harmonisation of regulation and recognition of type-approval certification and processes where appropriate. Leverage international network and new resources from the Ricardo fund to address over-restrictive barriers in key export markets, including unreasonable luxury car taxes, with a specific focus on achieving reasonable flexibilities for UK SVMs.

However, when there are profound differences, only a handful of regulations have been recognised as equivalent and only when these are broadly aligned with UN ones, for example under the UK-Canada FTA. To achieve more ambitious results, assessing to what extent respective regulations are compatible requires a detailed, objective, impartial assessment from an independent third party. Not doing so could mean allowing vehicles developed for eminently different conditions and regulations to circulate on British roads and vice versa, potentially undermining respective safety and environmental standards.

Mutual recognition should also be considered in terms of technical services and conformity assessment bodies. There are often rules which govern where a certification / testing body can be located. Even if the approval schemes remain separate, where recognition can be given to work conducted within another territory, significant savings can be made for the industry in not having to ship components and vehicles long distances during the approval process – saving both time and cost.

Carbon emission standards, for example, are typically set through domestic regulations and can result in the major reduction of market access when inappropriately implemented. For example, the Australian New Vehicle Efficiency Standard (NVES) has provided facilitations for heavy off-road passenger vehicles with a braked towing capacity of 3000kg or more, and, crucially, a 'body-on-frame' chassis. The result was that more modern and, possibly, more emission-efficient monocoque heavy off-road passenger vehicles were subject to far more stringent requirements and hefty penalties, effectively wiping out most of the UK-Australia FTA potential tariff benefits for premium exporters.

Australia is not the only FTA at risk from regulatory challenges. The hasty rollout of India's E20 fuel policy causes both technical and certification issues. Allowing blending of fuel with 20% ethanol without associated quality standards can result in significant corrosion of the fuel system, particularly if it allows mixing high levels of water and inorganic chloride.



While regulatory challenges affect all exporters, non-tariff barriers can be even more impactful when applied to UK Small Volume Manufacturers (SVMs) – including luxury and specialist vehicle manufacturers[1]. For example, SVMs currently cannot offer an E20 certification in India with the certainty that the authorities will accept it.

In contrast to volume manufacturers, SVMs generally require longer lead times to bring their products to market and model types typically have longer production life cycles. Equally, SVMs do not have the same access or ability to rapidly adapt production lines to new technology. This is why regulators often allow SVMs to benefit from specific flexibilities when implementing technical and environmental policies. When flexibility is not provided, challenges can become insurmountable.

The UN framework offers the benefits of harmonisation for volume manufacturers but may be of limited use to SVMs at it historically contains limited or no provisions for either SVMs or multi-stage build products. Again, Australia is a textbook case, with NVES regulations applying to volume and small manufacturers alike, not taking into account that SVMs cannot decarbonise at the same pace. But, while NVES penalties have reduced market access for SVMs, the implementation of other regulations without SVM provisions – such as requirements for Advanced Driver Assistance Systems (ADAS) – have resulted in some manufacturers experiencing a complete stop in sales of certain models in the country. The same might happen in India, regardless of future FTA ratification.

1 See the SMMT UK Small Volume Manufacturers Report for more information: https://www.smmt.co.uk/the-uks-small-volume-automotive-manufacturers/

Finally, exports of premium and luxury vehicles are particularly vulnerable to luxury car taxes that might greatly exceed potential tariff benefits from UK FTAs. As mentioned, China has lowered the threshold recently, with immediate impacts on premium vehicle exports. Australia, Canada, India all have luxury car taxes penalising imports of premium and luxury vehicles. In some cases, double taxation applies, with central government and local entities charging luxury car taxes twice on the same vehicles. Tax exemptions or significant reductions for BEVs and less-polluting models are often limited or entirely absent.

RECOMMENDATION 15

DEVELOP AN EFFECTIVE SINGLE TRADE WINDOW TOGETHER WITH BUSINESS

For a Single Trade Window that benefits automotive traders, government should explore processes and platforms established in countries such as Singapore and Nigeria, which have utilised blockchain technology and digital trade ledgers to create a data pipeline and double filing whereby the data inputted is translated into output data and the need to duplicate import/export data requirements is removed.

STRATEGIC PRIORITIES ON ENABLING SYSTEMS, SUPPLY CHAIN RESILIENCE AND ACCOUNTABILITY

The new strategy restates the government commitment to invest in the UK Customs Declaration Service (CDS) to ensure it meets customer needs. It also sets the ambition to negotiate mutual recognition agreements for compatible authorised economic operator (AEO) programmes and confirms the government's intention to eventually deliver a Single Trade Window – a digital service allowing users to meet their import, export and transit obligations by submitting information once, and in one place.

Establishing an effective Single Trade Window is a government ambition that industry supports. However, it is important that a future programme delivers customs facilitations and removes customs data requirements for businesses and is not simply a government Single Trade Window.

For outward-facing activities, the government has increased its export credit facility capacity by £20 billion to £80 billion. However, the strategy falls short on expectations to revamp export promotion activities, with an adequate successor to the Tradeshow Programme sorely lacking. The hopes of even modest funding for a new program were further frustrated after the publication of the new government strategy on Small and Medium Enterprises, leaving smaller automotive businesses without a reliable financial mechanism supporting them in taking their first step towards markets overseas.

With regard to enhanced resilience, government will launch a Supply Chain Centre tasked with supporting work to map international supply chains and related vulnerabilities, agree on cooperation agreements and coordinate with international trading partners. To achieve greater accountability in supply chain management, the strategy announced the launch of a review of the UK's approach to ensuring responsible business conduct, focusing on the global supply chains of businesses operating in the UK.

However, the strategy has a significant focus on broadening government powers in the trade defence area. Realising this objective could take the form of entirely new anti-coercion tools and by re-orientating the UK Trade Remedies Authority (TRA) towards a more assertive approach.

While sharpening trade defence tools and ensuring their effectiveness is in the interest of any UK business facing unfair competition, remedial action must remain proportionate to the urgency and severity of potential threats. Remedies must remain anchored to evidence-based investigations, with the TRA's role as a non-departmental public body preserved from excessive interventionism. Due process must be respected to ensure that all interested parties have the possibility to provide inputs within a reasonable timeframe before imposing restricting measures, with provisional remedies fast-tracked only when domestic industries are under immediate existential threat from unfair or coercive practices.

Finally, the strategy seeks to deliver enhanced good governance practices, providing additional time for parliamentary scrutiny of trade agreements and stating the intention to improve quality of trade data. In this sense, the release of data on preference utilisation rates is particularly welcome to fully assess the effectiveness of existing FTAs and set future targets for improvements.

However, the strategy falls short on delivering a modern, transparent framework on business engagement, with government deciding to maintain the existing outdated, inefficient model of individual Confidentiality Agreements as the main instrument to inform and receive inputs from stakeholders. Sharing information on a selective basis for fear of potential disclosures has resulted in the impossibility to develop industry positions that are truly representative of our sector's views in a timely manner, with legitimate interests not captured in formal submissions due to the limits of the confidentiality-based system or forcing late submissions when crucial decisions had already been taken, steering a dramatic re-direction of negotiations that might have resulted in the collapse of automotive discussions. Certainly, there must be a better way to engage with stakeholders, at least matching models adopted by the EU, the US, Japan, Mexico and India, including informal conversations with industry associations and their members, participation to live negotiations through a "room next door" mechanism, or, at the very least, collective confidentiality agreements instead of individual ones, sparingly used only when truly essential.

RECOMMENDATION 16

RELAUNCH A CREDIBLE EXPORT PROMOTION PROGRAMME

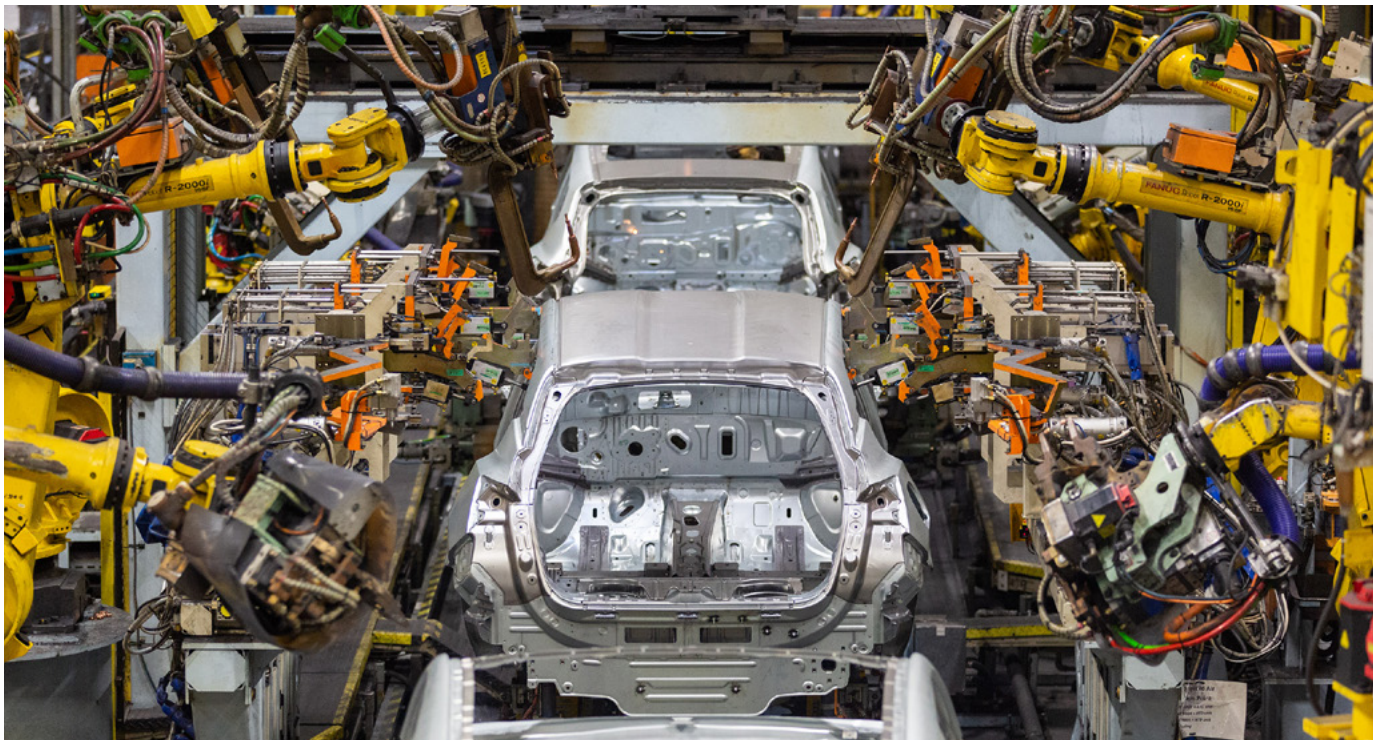
Smaller UK automotive business would benefit from the replacement of discontinued trade promotion programmes, drawing on the best features from past experiences, being easy to understand and apply for, with companies meeting the criteria guaranteed to get the funding. Such a programme should also provide support for business development visits, not necessarily involving an exhibition.

RECOMMENDATION 17

RETHINK THE UK BUSINESS ENGAGEMENT MODEL

Government should completely overturn its confidentiality-based engagement model, putting transparency and cooperation with all interested stakeholders at the core of government's trade policy by default. Government should resort to confidentiality agreements or similar tools only in truly exceptional circumstances.

RECOMMENDATIONS FOR GOVERNMENT AND INDUSTRY



01 DELIVER ON INVESTMENT AND INDUSTRIAL STRATEGY

For EV exports to grow and ensure domestic manufacturers re-establish a firm footing in the UK BEV market, announced investment must be delivered without delay and new investment secured in the near future. This is essential if the UK is to achieve the ambition set out in the recently published Industrial Strategy, of manufacturing 1.3 million units per year by 2035 and becoming a world leader in zero-emission technologies.

02 AN UNWAVERING COMMITMENT TO AVOID TARIFFS ON EU-UK EV TRADE

The UK government should be driven by an unequivocal trade objective to do everything necessary to avoid the application of tariffs and non-tariff barriers on bilateral EV imports and exports. Reducing reciprocal EV market access would fundamentally undermine the respective decarbonisation agendas, subtract resources for further investment and represent an insurmountable obstacle to future EV growth. Instead, enhanced collaboration on our respective industrial and decarbonisation strategies should be pursued.

03 AGREE TO A WORKABLE DEFINITION OF ORIGIN RULES FOR CATHODE ACTIVE MATERIALS

With the absence of shared guidance a little over one year from the planned implementation of 2027 rules of origin already causing major damage to investors and manufacturers, the UK and EU governments should work with the automotive industry to agree a reasonable definition of what constitutes an originating CAM. The definition must be in line with the rules applicable to chemicals compounds under the TCA.

04 MONITOR COMPLIANCE RATES WITH 2027 EV RULES OF ORIGIN

The UK government, the EU commission and the European automotive industry must conduct an open assessment of expected compliance and act responsibly, taking into account uncertainty regarding the interpretation of 2027 rules.

05 FAST-TRACK NEGOTIATIONS TO RE-JOIN PEM

Deliver the UK trade strategy objective to consult with interested stakeholders, then fast-track negotiations with the EU and other PEM parties to re-join PEM. PEM should be offered as an alternative to the rules incorporated into the TCA and the UK-Türkiye FTA – which mirrors the TCA's origin requirements – while reformed PEM rules should fully replace origin chapters with the remaining PEM parties.

06 FINALISE NEGOTIATIONS WITH SOUTH KOREA AND AVOID TARIFF GAP

Conclude negotiations on an upgraded UK-South Korea FTA and agree bridging solutions to avoid the reintroduction of tariffs from January 2026. These could include an extension of current EU cumulation clauses or the provisional implementation of the new agreement while the parties complete formal ratification procedures.

07 FIX THE BILATERAL TRADE RELATIONSHIP WITH CANADA

No efforts should be spared to re-establish preferential treatment in exchanges with such a significant trading partner at bilateral and regional level. A prompt ratification of the UK's CPTPP accession could be prioritised as a first step towards a normalisation of Transatlantic trade relations. However, the recently announced UK-Canada Economic and Trade Working Group must pave the way to resume negotiations on an enhanced bilateral FTA while reinstating EU cumulation clauses and origin quotas in the meanwhile

08 A FORWARD-LOOKING AUTOMOTIVE TRADE STRATEGY

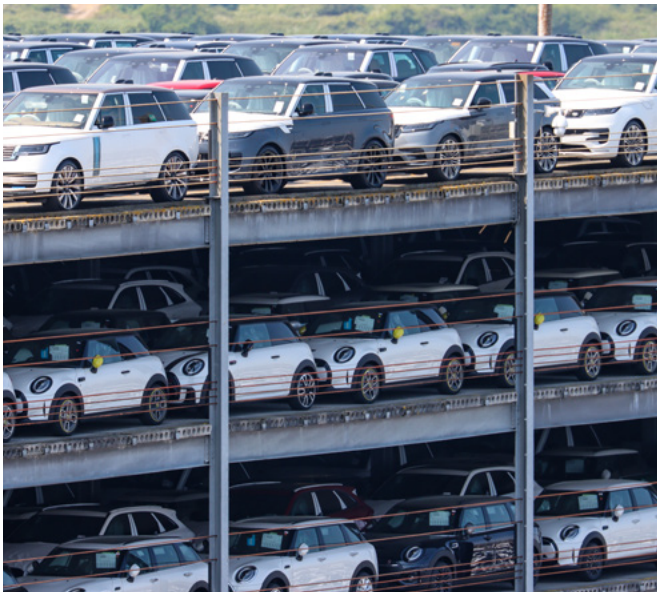
Government should put Automotive at the centre of its trade agenda, seeking to reduce tariff and non-tariff barriers on automotive products likely to drive future growth, including electric and hydrogen-powered vehicles, connected and automated vehicles and related technologies.

09 DELIVER AN ENHANCED EU-UK REGULATORY PARTNERSHIP

Link the respective Emission Trading Schemes (ETS) and exempt covered goods from administrative burdens resulting from the EU and UK Carbon Border Adjustment Mechanisms (CBAM). Initiate discussions to ensure that the same vehicles can be sold in UK and EU markets, wherever possible, utilising internationally harmonised technical standards and / or regulations under the auspices of the United Nations or bilaterally aligning other regulations where appropriate.

10 SEEK PROGRESSIVE IMPROVEMENTS ON THE EPD

Government and industry should monitor the EPD implementation and identify potential shortcomings. Government should continue to engage with the sector and US counterparts to explore potential options to limit uncertainty while maximising TRQ utilisation and provide reasonable growth margins. Government should also aim to streamline and simplify the application of reduced tariffs on UK-made parts.



11 MAINTAIN A BALANCED, FAIR AND EQUITABLE TRADE RELATIONSHIP WITH CHINA

Rekindle political engagement to ensure UK and Chinese manufacturers can mutually benefit from the bilateral trade and investment relationship. Continue to use in-post resources to streamline licensing applications. Spare no efforts to ensure UK exporters do not become collateral damage among escalating trade tensions between China and key trading partners.

12 ENSURE A SWIFT IMPLEMENTATION OF THE UK-INDIA FTA

Advance ratification procedures at speed and conclude discussions with India on TRQ implementation and origin claims well ahead of entry into force.

13 SEEK FURTHER TARIFF REDUCTIONS WITH NEW AND OLD FTA PARTNERS

Progress UK-GCC negotiations to secure an ambitious agreement removing tariffs on the basis of workable origin requirements. Utilise tariff reviews to seek further tariff reductions and, when appropriate, seek mutually beneficial improvements in areas such as rules of origin to provide enhanced market access to both importers and exporters.

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ANNEX: DATA SOURCES

SMMT has used four key sources for the trade data – ONS, HMRC, APC quarterly estimates and our own SMMT data sets.

The three government sources are used for value of exports and imports. HMRC and ONS use slightly different classifications and approaches, but the overall difference is relatively small in this context. We have used ONS data for the headline figures and HMRC data for country specific and commodity specific information SMMT data is used for volumes of vehicle production destined for export and new registrations by origin.

For more information on SMMT data and for additional data please contact smmtdata@smmt.co.uk

The ONS data uses the Statistical classification of products by activity, known as the CPA and covers all motor vehicles, including engines and parts and accessories. The ONS data gives both home and export details and a split between EU and non-EU. See https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/datasets/uktradeingoodsbyclassificationofproductbyactivity for data and https://www.ons.gov.uk/methodology/classificationsandstandards/otherclassifications/standardandothernationalandinternationalclassifications for CPA definition

The HMRC data uses Harmonized System (HS) codes and for the purposes of this report certain codes under Chapter 87 (motor vehicles and parts and accessories), 84 (engines) and 85 (batteries). The detailed codes are given below. See: https://www.uktradeinfo.com/

HS CODES USED

8701 Tractors, including tractors for semi-trailers

8702 Motor vehicles for the transport of >= 10 persons

8703 Motor cars and other motor vehicles principally designed for the transport of <10 persons, incl. station wagons and racing cars

8704 Motor vehicles for the transport of goods, incl. chassis with engine and cab

8705 Special purpose motor vehicles

8706 Chassis fitted with engines, for tractors, motor vehicles

8707 Bodies, incl. cabs, for tractors, motor vehicles

8708 Parts and accessories for tractors, motor vehicles

840731, 840732, 840733, 840734 Petrol Engines

840820 Diesel Engines

850760 Lithium-ion accumulators, including modules, cells.

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MOTOR INDUSTRY

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