VDA | Verband der Automobilindustrie

# Politikbrief 01/2018

News Service for Decision Makers in Politics and the Economy

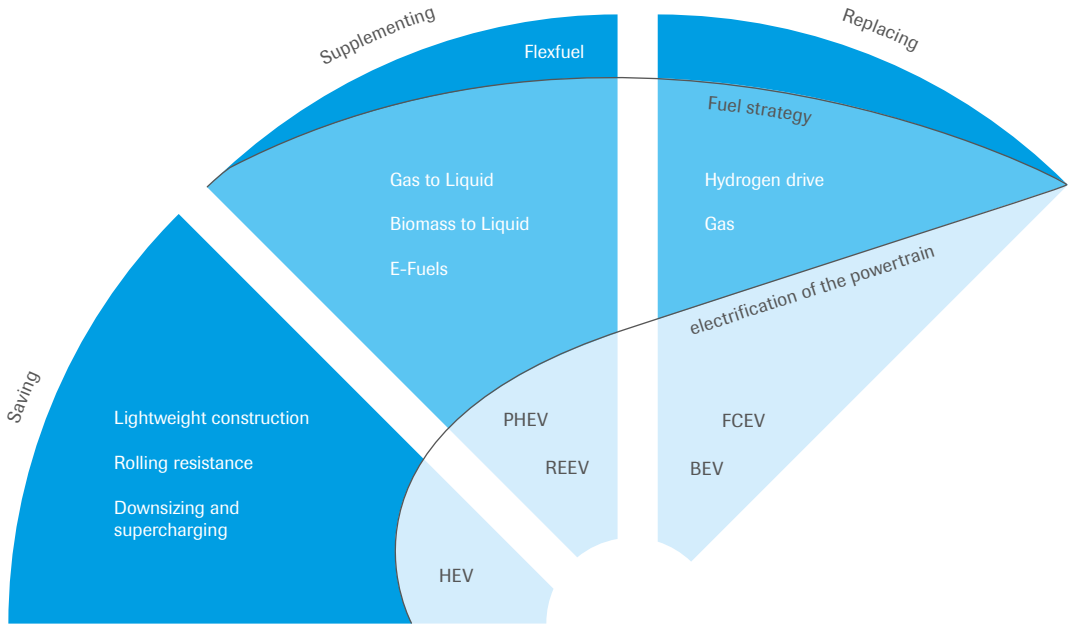
Content

# Technology neutrality as the guiding principle and prerequisite for sustainable and forward-looking mobility

The death knell of the internal combustion engine is already being sounded in many quarters. But the modern, efficient and low-emission combustion engine remains indispensable to a sustainable and forward-looking economic, transport and climate policy. This is why the guiding principle of tomorrow's mobility should and must be technological neutrality. Because only the widest possible range of engine types and fuels will enable Germany's and the EU's ambitious 2050 climate protection targets to be achieved. To that end, the German automotive industry has for years now been pursuing its diversification strategy encompassing all options.

Electric mobility plays an important role in this. In addition to purely battery-powered electric vehicles (BEV), plug-in hybrids (PHEV) are an efficient and locally emission-free alternative. By 2020, German manufacturers will treble their offering of E-models to more than 100. Companies

The multipronged stategy of the German automotive industry




HEV = Hybrid Electric Vehicle
PHEV = Plug-in Hybrid Electric Vehicle
REEV = Range Extended Electric Vehicle
FCEV = Fuel Cell Electric Vehicle
BEV = Battery Electric Vehicle

Source: VDA

are also getting to grips with the issues of range and infrastructure. The next few years will see e-models coming to market with a range in excess of 500 kilometers.

Yet another important building block are synthetic fuels, so-called e-fuels. These are $CO_2$-neutral fuels made using renewable electricity. E-fuels offer a further major advantage: their effect is felt on the entire EU vehicle fleet, not just on new car registrations. As such, they could quickly make a significant contribution to reducing $CO_2$ emissions. Although they are currently still significantly more expensive than conventional fossil fuel, they are an indispensable element in achieving the EU's very ambitious 2050 climate targets.

Natural gas is also an important component of the German automotive industry's diversification strategy. Compressed natural gas (CNG) is a promising option for cars and liquid natural gas (LNG) for heavy commercial vehicles. Natural gas has a $CO_2$ advantage of more than 20 per cent compared with gasoline engines and of up to 10 per cent compared with diesel engines.

Fuel cells are another option. Combined with hydrogen storage, the fuel cell is an emission-free propulsion technology. It offers similar potential to that of an internal combustion engine vehicle in terms of flexibility and convenience. The hydrogen filling station network needs to be developed and expanded if this type of propulsion is to increase its market share.

The variety of alternative means of propulsion and fuels emphasizes the point that anyone seriously aspiring to shape the future of mobility must adopt a technologically neutral approach. Not conducive are approaches seeking to prescribe or even ban specific technologies.

This is about the long haul, not a sprint. By the end of the decade, German manufacturers and suppliers will be investing a total of 40 billion Euros in alternative propulsion technologies. Further steps are required if individual means of propulsion are to gain traction. In the case of electric mobility, natural gas and fuel cells, both private and public infrastructure needs to be developed; there is as yet still no strategic political agenda for e-fuels.

Fully exploiting the potential of the various propulsion systems therefore requires not just a strong automotive sector but political commitment as well. Only a concerted approach by the federal government, states, local authorities and industry is capable of successfully shaping the future of mobility.

## E-fuels study

The VDA commissioned a study by Ludwig-Bölkow-Systemtechnik (LBST) and the German Energy Agency (dena) to assess the potential of e-fuels for climate-neutral transport within the EU. The study investigates the European transport sector's future energy requirements as well as the associated development requirements for renewable energy production capacity. The study is available online at:

www.vda.de/e-fuels_en

# $CO_2$ regulations post 2021: Effective climate protection requires technologically neutral incentives to innovation and the full realization of optimization potential

It had been awaited as the most important dossier of the current European legislative period: $CO_2$ regulations for cars and light commercial vehicles for the post 2021 period. The European Commission published its plans at the beginning of November as part of its second mobility package.

It requires manufacturers to reduce their new vehicle fleets' $CO_2$ emissions by 30 per cent by 2030. A binding intermediate target with a reduction requirement of 15 per cent is to be in force by 2025. $CO_2$ emissions by light commercial vehicles are also to fall by 15 per cent (2025) or 30 per cent (2030).

The bar has been set high, perhaps too high. Firstly, the ability to further optimize economical diesel and gasoline engines is starting to butt up against the limits of the technically and economically feasible. Secondly, ever fewer low $CO_2$ emission diesel models are being sold and thirdly there is still uncertainty surrounding electric mobility. Customer acceptance of alternative propulsion systems in the years ahead is still unclear, as is the speed of public infrastructure provision. It is therefore questionable from today's perspective whether the proposed $CO_2$ targets are achievable.

Effective climate policy must ensure cost efficiency in order to prevail against international competition. It is right for Europe to pursue ambitious climate targets but our continent must not diverge too far from other parts of the world. Whereas China has increased its $CO_2$ emissions across all sectors by 331 per cent since 1990, the EU has cut its total emissions by almost 21 per cent. The European automotive industry is under greater strain than its international competitors. For example, the $CO_2$ target of 95 grams per kilometer for cars imposed by the EU for 2020/2021 is the most stringent in the world. The target in the USA is 121 g $CO_2$/km by 2020, in China 117 grams and in Japan 105 grams. German group brands' newly registered cars already consume around one quarter less fuel than they did as recently as 2007.

The binding intermediate target for 2025 in particular is pushing things too far. Because it is only four years from 2021 to 2025. As car product cycles are around five to seven years, requirements such as these are hard to achieve. Development and product cycles for commercial vehicles are even longer at up to ten years. The transporter market also differs from the car business because it is inherently optimized for $CO_2$ efficiency. Because low fuel consumption has always been a critical sales pitch. The regulations should bear that in mind.

In order to sustain its strong future competitive position, industry depends on a political framework that supports the development of innovation in a way that is constructive and technologically neutral. That is why it is right for the Commission not to mandate any fixed sales quota for e-vehicles and to rely instead on a flexible solution allowing for offsetting for low-emission vehicles. The incentive system should however be so designed that not only purely battery propelled vehicles but plug-in models as well receive a sizable bonus. Because on average they drive just as far on electric power as purely electric vehicles and as such are able to save just as much $CO_2$. This is borne out by a recent study by the Fraunhofer Institute for Systems and Innovation Research (ISI) and the Karlsruhe Institute for Technology (KIT).

All in all, the Commission's proposals for promoting innovation don't yet go far enough. Especially for electric mobility a stronger stimulus would be desirable.

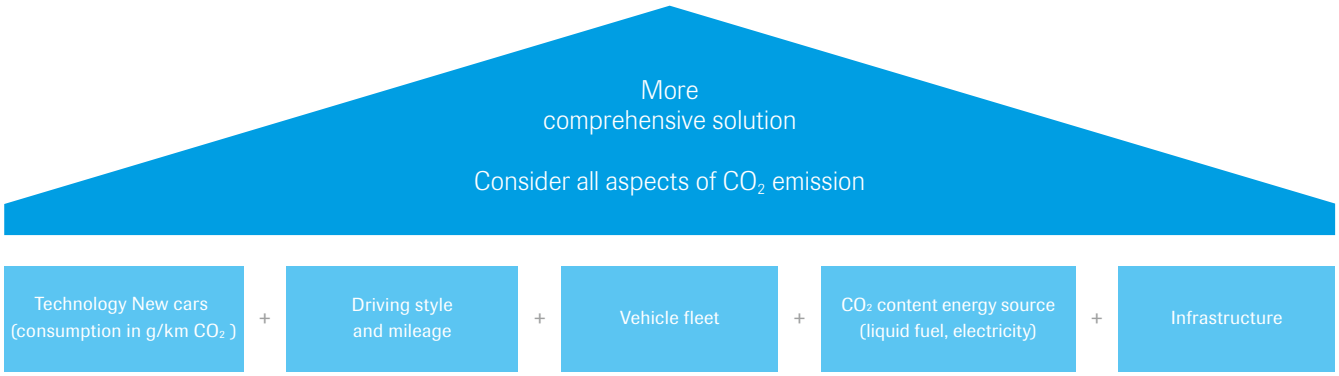
The market for e-vehicles needs to gain momentum if the progress in cutting $CO_2$ is to be sustained. How quickly that comes about depends on circumstances over which the automotive industry has little or no control: battery costs, charging infrastructure, fuel prices, public procurement. Electric mobility is a joint endeavor in which the political arena needs to take responsibility for developing charging infrastructure and the EU Member States need to support this technology with an active, demand-driven policy. This includes greater public procurement involvement. Only if industry and politics join forces is a relevant electric vehicle share of between 15 and 25 per cent achievable in Europe by 2025.

The previous concept also ignores potential reductions beyond the scope of vehicle technology, such as driving style or the $CO_2$ content of the energy sources being used (fuels, electricity). A comprehensive political strategy should increase efficiency across all propulsion systems and fuels. There is a considerable $CO_2$ reduction potential to be had especially in biofuels and fuels based on electricity from renewable energies (e-fuels).

In addition to alternative propulsion systems, e-fuels that are independent of crude oil could be an option for future climate-neutral mobility. To achieve the overarching climate protection targets, future optimization should not just look at the vehicle side but the upstream chain and user phase as well. Because the leverage here is far greater: improving the existing fleet by 1 gram – for example by a fuel with a lower $CO_2$ content – is just as effective as a 20 gram improvement in the new vehicle fleet.

The EU Commission's proposals now need to be ratified by the Council and Parliament in a regular co-decision procedure. That means that Members of the European Parliament and the governments of the Member States – first and foremost the German government – have the opportunity in this process to improve the Commission's proposals in terms of a more holistic approach and to promote innovation.

Comprehensive $CO_2$ reduction requires a broader view




Source: VDA

# Urban air: rational discussion, effective action

Clean air is right at the top of the political agenda. The focus of this heated and occasionally unnuanced debate is on diesel. It is urgent to inject objectivity into the public debate.

The modern diesel is up to 25 per cent more economical and generates up to 15 per cent lower $CO_2$ emissions than a gasoline engine. It therefore makes a disproportionate high contribution to achieving European $CO_2$ targets. The fitting of diesel particulate filters as standard as long ago as 2004 has also slashed particulate emissions. Since the introduction of Euro 5 in 2009, diesel vehicles have significantly outperformed the limits on all emission components such as soot, hydrocarbons (HC) or carbon monoxide (CO), especially in actual operation. The introduction of the Euro 6 emission standard has delivered significant improvements in nitrogen oxide emissions ($NO_X$).[1] Notwithstanding that, diesel vehicles are still responsible for a comparatively high proportion of road traffic nitrogen oxide emissions – and therefore they are in the center of attention at this time.

But despite that the air in German towns and cities is cleaner today than ever before: according to the "Umweltbundesamt", traffic-related nitrogen oxide emissions have fallen by 70 per cent in the period 1990 to 2015 – despite significantly greater traffic volumes. And we continue to make significant progress: the available data indicates that the maximum hourly threshold requirements were adhered to for the first time on all German roads in 2017. The $NO_X$ problem is not therefore a universal one. Instead, permissible annual average values are currently still being exceeded in a number of isolated hotspots in built-up areas. Just a few meters away from the measuring stations the $NO_X$ values are frequently only half the level, according to findings by the independent researchers of the Karlsruhe Institute for Technology (KIT) in Stuttgart for example.

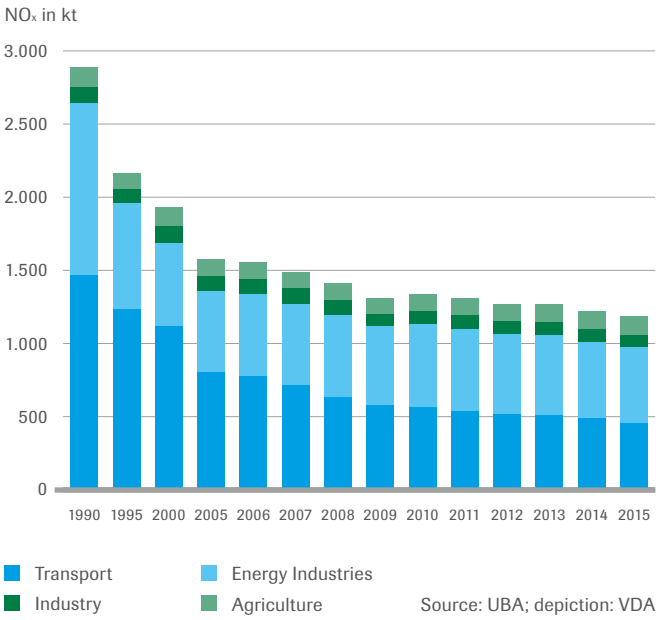
Despite that, individual groups are repeatedly banging the drum for blanket driving bans on diesel vehicles. This is misrouted environmental politics because diesel vehicles are just as good or better than gasoline engines when it comes to most of the emission components. Moreover the latest diesel technology (in Euro-6d vehicles) shows that the $NO_X$ pollutant limits are being adhered to – both on the test bench and on the road.

But the talk of a ban is unsettling many people, including many small and medium enterprises that have purchased an efficient diesel.

The federal government, states, local authorities and industry are busy working to improve urban air quality yet further. We know just how much pressure there is on towns and cities to act on air quality and we are making our contribution to improve the situation.

Joint initiatives were decided at the political and industrial diesel summit in August 2017, which are now being rigorously implemented: the free software updates for more than five million diesel cars, switching incentives and the renewal of the vehicle fleet can cut road traffic $NO_X$ emissions by approximately 12 to 14 per cent by the beginning of 2019.

$NO_x$ emissions in Germany
1990 – 2015 by source categories




Source: UBA; depiction: VDA

[1] ADAC EcoTest 2017 shows that $NO_X$ emissions from German cars range from 141 to 488 mg/km. According to HBEFA 3.3., Euro 5 emissions are at 906 mg/km. This corresponds to an improvement of 84 to 46%.

Furthermore, BMW, Daimler and the Volkswagen Group are involved in the Federal Government's planned "Sustainable Open Mobility" fund. These resources are intended to promote initiatives to digitalize traffic, alternative propulsion systems and innovative mobility offerings. We also believe it makes sense to promote the prompt replacement of older bus and taxi fleets with vehicles complying with the latest emissions standard. Because modern Euro-VI buses emit 80 per cent less $NO_x$ on the road than their Euro-V predecessors as well as being significantly more fuel-efficient. A hardware retrofit is not the first choice because it raises legal questions, it is uneconomic and technically often an unsatisfactory solution.

The experts of the "National Diesel Forum" that emerged from this diesel summit are also recommending numerous initiatives in the traffic control, digitalization and networking arena. According to a study by Prognos AG, for example, parking search traffic in towns and cities can be significantly reduced through digitalization. This affords potential reductions of up to 50 tonnes of particulates and up to 1000 tonnes of $NO_x$ annually (FAT-Series 271).

In addition to the aforementioned measures, we have launched initiatives of our own with towns and cities. In the "Urban Mobility Platform" set up by the VDA in 2016, companies and towns and cities are jointly developing projects to ensure that the future mobility in built-up areas continues to be efficient, environmentally friendly and safe. Furthermore, together with our manufacturers and suppliers, we have approached towns and cities that are currently still experiencing particularly critical $NO_x$ values.

As part of this urban initiative, we are jointly working on solutions to find quick ways of improving the air quality in the town or city in question. This ranges from a rapid replacement of fleets by low-emission or emission-free vehicles via the development of industry sharing offerings to improvements in traffic control through phased traffic lights (green wave) and digitalization. Companies as well are adopting new approaches: for example they are expanding their job ticket offering, stepping up the introduction of home working and supporting car sharing initiatives.

Collectively, all these measures will help to improve urban air quality decisively within the foreseeable future.

We are already witnessing initial success with nitrogen oxide values: at Stuttgart's Neckartor, the permitted figure of 18 hours in which the average hourly value of 200 µg $NO_2/m^3$ was exceeded was complied with for the first time in 2017. The limit was exceeded on only three occasions. The average hourly value requirements were met in Munich as well, the average annual value has at least improved. Urban air quality is therefore progressively improving. The replacement of the vehicle fleet and the German manufacturers' broad package of offerings is obviously having an effect.

## Invitation to the 67th IAA Commercial Vehicles

The 67th IAA Commercial Vehicles will take place in Hanover from 20 - 27 September 2018.

As a forum for decision-makers, media and the automotive industry, the IAA Commercial Vehicles provides a comprehensive overview of the latest trends and developments. As the most important leading trade fair for mobility, transport and logistics, the IAA is the focal point of the commercial vehicle scene and is characterized by a comprehensive array of innovations, exhibitors from groups and sectors of every stripe, expert visitors and discussions. The IAA exhibits a higher degree of internationality than any other commercial vehicle trade fair. Its aim and ambition is to be the best possible platform for encountering exhibitors and visitors.

Following its successful launch in 2016, the New Mobility World Logistics" will again be in the lineup this year, with its topics permeating the entire trade fair. The spotlight will be on networked and automated driving, emission-free propulsion systems, urban logistics, rapidly increasing mobility and transport. We will also be allocating even more space to the "NMW Logistics" in a new dedicated area. Start-ups will be introducing themselves in the "NMW Lab18".

This will be complemented by a comprehensive congress program with discussion forums. Exhibitors will be showcasing interesting new products, services and applications live on the "New Mobility World LIVE" demonstration area.

We are once again expecting students and teachers from throughout Germany for study and vocational counseling at the "goING" and "workING" workshops. There is also our classroom initiative, which not only offers cut-price admission, but also provides a wealth of material for preparing the visit to the show.

As the world's most important mobility exhibition, the IAA is also an important platform for political communication. Numerous politicians from both the federal and state levels, EU representatives and other international guests are expected. The VDA is offering individual tours for political office holders and ministry and government authority employees. Information on these tours is available from Kerstin Nasch of the VDA organizing team on +49 (0)30 897842401 or nasch@vda.de. Additional details on the motor show and on IAA events are constantly updated at www.iaa.de.

# The competition never sleeps – tax policy action required in Germany

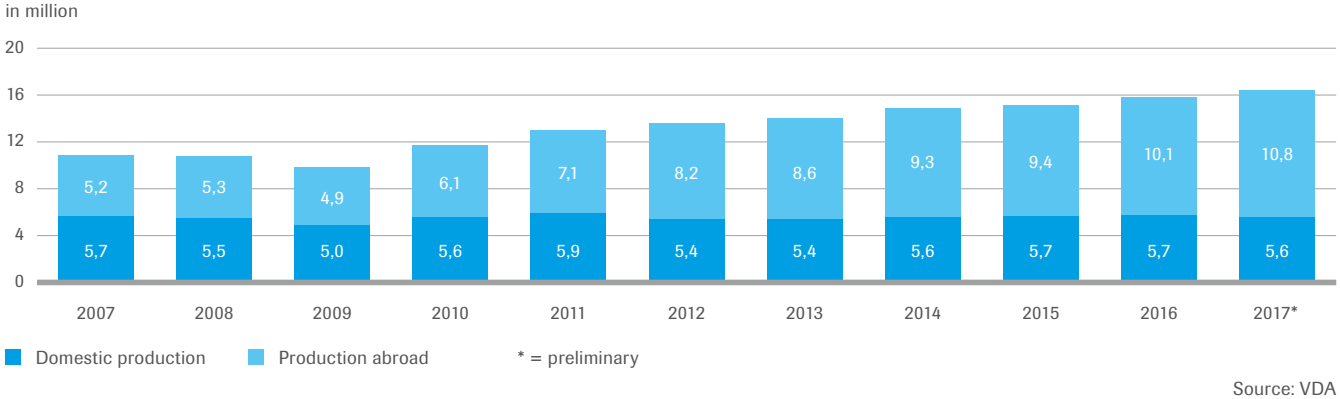
German automotive manufacturers and suppliers have a successful year behind them: worldwide production of 16.4 million cars is a new record for the German automotive industry. This success is neither set in stone nor a reason for Germany to rest on its laurels. Anyone paying careful attention will have noticed that on the one hand foreign production last year again increased significantly – by 7 per cent to 10.8 million units. Domestic production on the other hand declined slightly – by 2 per cent to 5.6 million cars (see graph). By implication what that means is: we need to redouble efforts to secure Germany's competitiveness if we are to compete internationally and sustain manufacturers' and suppliers' domestic capacity for the coming decade. This includes excessive energy costs and the skills shortage but the fiscal framework as well.

## Internationally competitive tax regime

Looking across the Atlantic exemplifies how the global competition between locations is becoming ever tougher. In 2017 German manufacturers in the Nafta area produced more than 1.4 million Light Vehicles for the first time, an increase of 10 per cent. The greater part (56 per cent) was produced in US plants, 44 per cent came off Mexican production lines. Whereas German companies have been strategically expanding their production on the other side of the Atlantic for several years, this has been matched by falling exports from Germany. Since 2013, the decline has been almost one quarter, or around 160,000 Light Vehicles. With the adoption of the recent tax reform, the United States have put down a new marker: at 21 per cent the US corporate tax rate will in future be significantly lower than the approximately 25 per cent that companies in OECD countries typically pay on their profits. Furthermore, with improved depreciation regulations and a tightening up on companies with cross-border operations, the American legislative package contains additional incentives to relocate group functions and investment to the United States.

Given an average corporate tax burden of around 30 per cent, Germany needs to follow suit and create an internationally competitive tax regime. This includes in particular reform of foreign tax law (German "Controlled Foreign Corporations" regime), so as not to disadvantage German companies with their foreign investments in foreign subsidiaries.

German OEM: Worldwide passenger car production 2007 - 2017




Source: VDA

## Corporate taxation 2016 in international comparison

Collective tax burden on the profit of corporations 2016 (nominal) in percent (corporate income tax, trade income tax and similar other taxes of the central and regional authorities)

EU Member States

| States | Central Authorities | Regional Authorities | Combined | States | Central Authorities | Regional Authorities | Combined |
|---|---|---|---|---|---|---|---|
| Belgium [1] | 33,99 | – | 33,99 | Malta | 35 | – | 35 |
| Bulgaria | 10 | – | 10 | Netherlands [1] | 25 | – | 25 |
| Denmark | 22 | – | 22 | Austria | 25 | – | 25 |
| Germany | 15,83 [2] | 14 [3] | 29,83 | Poland | 19 | – | 19 |
| Estonia | 20 [4] | – | 20 | Portugal [1] | 21 | 1,5 [6] | 22,5 |
| Finland | 20 | – | 20 | Romania [1] | 16 | – | 16 |
| France | 38 | – | 38 | Sweden | 22 | – | 22 |
| Greece | 29 | – | 29 | Slovakia | 22 | – | 22 |
| Ireland | 12,5 | – | 12,5 | Slovenia | 17 | – | 17 |
| Italy | 27,5 | 3,9 [5] | 31,4 | Spain [1] | 25 | – | 25 |
| Croatia | 20 | – | 20 | Czech Republic | 19 | – | 19 |
| Latvia | 15 | – | 15 | Hungary [1] | 19 | 2 [7] | 20,62 |
| Latvia [1] | 15 | – | 15 | United Kingdom [1] | 20 | – | 20 |
| Luxembourg [1] | 22,47 | 6,75 | 29,22 | Cyprus | 12,5 | – | 12,5 |
| Other States | | | | | | | |
| Japan [1] | 23,4 | 10,6 [8] | 32,26 | Switzerland (Zurich) | 8,5 [9] | 17,52 [9] | 20,65 |
| Canada (Ontario) | 15 | 11,5 | 26,5 | United States (New York (state)) [1] | 35 | 7,1 [10] | 39,23 |
| Norway | 25 | – | 25 | | | | |

1) These countries apply reduced tariff rates or other special rates.
2) Including 5.5% solidarity surcharge.
3) Trade tax at a rate of 400%.
4) Profit distribution tax; 0 % at accumulation.
5) Standard rate IRAP; Basis of assessment is - unlike in the case of state tax – added value, not profit; a part of the IRAP reduces as a business expense the basis of assessment of corporate income tax.
6) Community surcharge (maximum 1.5% on the profit).
7) Trade tax; reduces the assessment basis of corporation tax as an operating expense.
8) Including - in the case of central government tax - deductible business tax (here 8.04%) and surcharges of the prefectures and municipalities on the Central government tax (here average).
9) Taxes reduce the own tax base.
10) Excluding New York City General Corporation Tax in the amount of 8.85%.

Source: German Federal Ministry of Finance (2017)

## Introduce tax incentives for research

Numerous EU countries have created tax incentives for research. Germany needs to play catch up here to safeguard its R&D locations and introduce a tax credit for R&D personnel costs to complement project-related research funding. This should apply to all companies active in the research and development arena – irrespective of size. This would be an important political signal for technological progress in Germany and for our automotive manufacturers' and suppliers' sites in Germany. According to the latest figures, the automotive industry's global R&D expenditure in 2016 reached 40.2 billion Euros. We would like this R&D commitment in Germany to increase rather than decline.

## Modernize business and corporate taxes

Business tax is a particular burden on Germany companies compared with other countries; it incurs high administrative costs and causes unfair distributional effects between local authorities. Fundamental reform of business tax is therefore overdue and as necessary as a reform of local authority finances. The goal should be a modern municipal finance system that caters for corporate tax law requirements and flexible local authority financial needs. Replacing business tax with a surcharge on income and corporation tax should be considered. At the very least the perverse non income-related elements of business tax – the so-called business tax additions – should be eliminated or restricted. Taxes on borrowing costs that are inimical to investment are prejudicial to Germany as business location.

## Continue to push the market launch of electric mobility

The fiscal framework as well can impart critical stimuli in pursuing the politically ambitious electric mobility goals. The German automotive industry is vigorously backing electric mobility. This ramping up is clearly apparent in Germany, with sales doubling year-on-year. By 2020, German manufacturers will more than treble their offering of e-cars models to more than 100. Helping these efforts succeed requires a rapid expansion of the charging infrastructure and clever fiscal incentives. This therefore requires vehicle tax exemption to be rolled over beyond 2020 and extended to hybrid electric vehicles as well. The same applies for the tax exemption until 2020 of charging current obtained from the employer free of charge or at a discount.

## Continue the medium-term taxation of diesel

The modern diesel car has lower fuel consumption and lower $CO_2$ emissions than a comparable gasoline engine. It is therefore especially important, particularly in the next few years, in achieving the EU's ambitious $CO_2$ targets for 2021.

It should also be borne in mind when looking at mineral oil tax rates that the vehicle tax for diesel cars is significantly higher than for a spark ignition car. It is only with higher annual mileage that the disadvantages of the higher vehicle tax are offset by the lower tax burden on diesel fuel. Increasing the mineral oil tax on diesel in the near term would especially affect industry, for example freight forwarders, tradespeople and taxi drivers, but many commuters and transport companies as well. Looking ahead to the next decade, a gradual restructuring of the tax system is conceivable but careful preparation is urgently required.

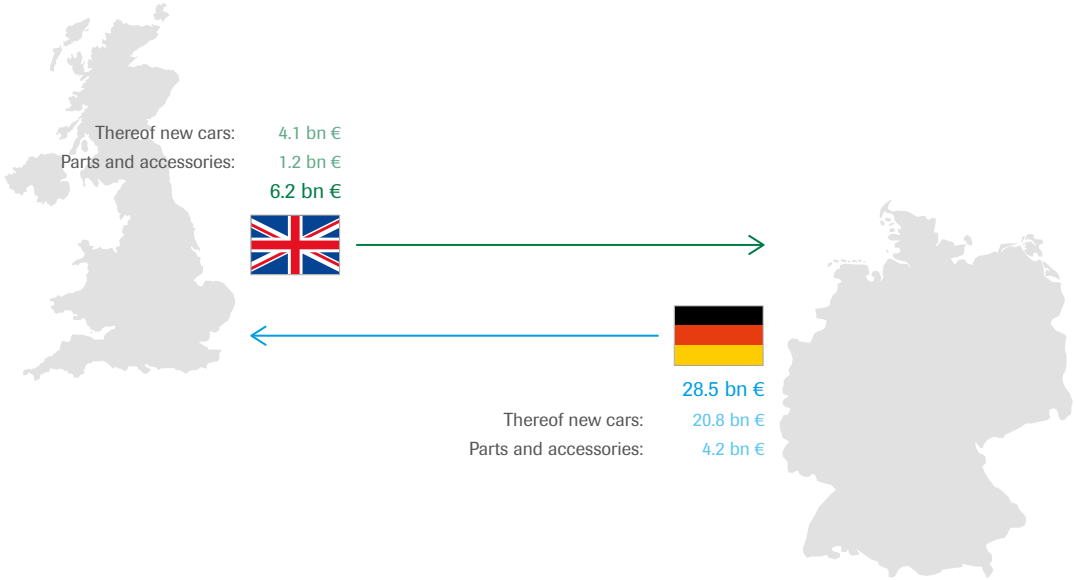
In conclusion we can say: as an industrial and exporting country, Germany is in the middle of an increasing global location competition – even within companies themselves. When it comes to the fiscal framework, action is urgently required at important pressure points to remain internationally competitive while at the same time improving corporate legal and planning certainty. With an eye to current tax revenues at a record level the time has now also finally come, in addition to combating genuine tax abuse, to tackle the necessary structural reforms.

# Where shall the trip go to? What Brexit holds in store for automotive manufacturers and suppliers

The EU summit on 15th December 2017 heralded the second phase of Brexit negotiations. A treaty on the United Kingdom's departure from the EU is supposed to be finalized by autumn 2018 – unless that is the British decide to go back on their original Brexit decision. Especially in Great Britain and Northern Ireland, but in the EU 27 countries as well, attention now needs to be focused on the immediate consequences of Brexit on companies' daily routine. How will Brexit alter German automotive manufacturers' and suppliers' business practices? One thing is clear: all areas are affected – from the recycling of old cars to customs duties.

The German automotive industry is agitating to ensure that the partnership with the United Kingdom remains as close as possible. This applies to trade and investment as well as regulatory collaboration. But negative effects of Brexit are already apparent – both on the island and on the continent: Since the Brexit vote in the summer of 2016 the pound has lost 12 per cent of its value against the Euro. The inflation rate in the United Kingdom reached 3.1 per cent in November 2017 – the highest level for almost six years. Car exports from Germany to the United Kingdom fell by 4 per cent in the period January to November 2017. While eleven-month car exports from the United

Automotive trade* in values (2016)
Automotive trade Germany – UK




* Includes motor vehicles (passenger cars, commercial vehicles), chassis with engines, engines and engine parts, bodies and trailers as well as vehicle parts and accessories.

Source: Statistisches Bundesamt

Kingdom to the rest of the world remain unchanged year-on-year, production is down 2 per cent. What has become clear in recent months is that Brexit benefits nobody.

Germany exports more cars to the United Kingdom than to any other country. That was 725,400 cars in the first eleven months of last year. Following a hard Brexit, Great Britain would be a third country with an EU external tariff of 10 per cent for cars. In 2016 Germany exported new cars worth more than 20 billion Euros to Great Britain. Even based on a crude calculation, automotive manufacturers would incur additional customs costs of around 2 billion Euros annually. To this needs to be added customs duties on vehicle parts and accessories subject to an EU customs rate of between 2 and 5 per cent.

The United Kingdom as an automotive location is also dependent on exports, and thus on unimpeded access to European car markets: of the almost 1.7 million cars produced there in 2016, almost 80 per cent were exported (1.4 million units). The bulk of car exports, 56 per cent (758,000 units) were shipped to the European Union. The British exports also include a large proportion of the more than 220,000 cars produced in the United Kingdom by German automotive manufacturers in 2016. German group brands and numerous suppliers are present in the United Kingdom with around 100 production sites.

The additional customs costs would be a significant burden on German-British trade. An additional challenge for companies is safeguarding the supply chain into and out of the United Kingdom. There is scarcely time before the official departure to resolve the customs clearance problems. New formalities, such as for example import and export declarations for the bilateral trade in goods, translate into a high cost for companies in terms of time and organization. Practical solutions for the post-transitional phase period urgently need to be found.

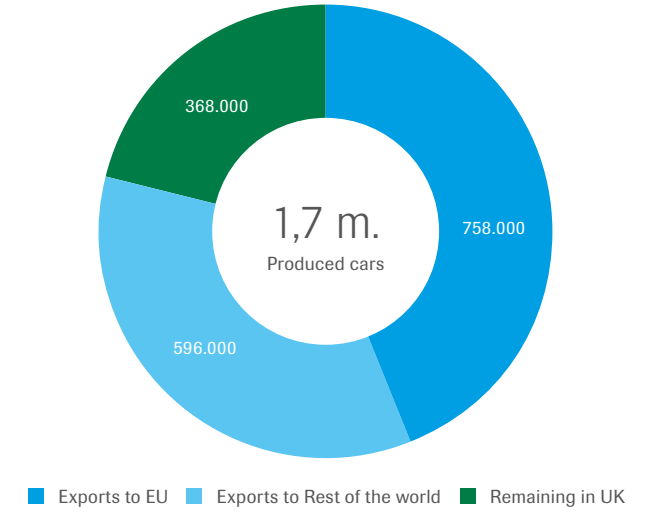
Irrespective of whether the future relationship between the United Kingdom and the EU is governed by a comprehensive free trade agreement or by a customs union, companies involved in cross-border trade will have to conduct a customs clearance process. A simplified customs clearance process therefore needs to be set up that ensures frictionless trade without any additional administrative effort for companies and customs authorities in the EU and United Kingdom. This process should ensure that goods are available to the participating parties at all times – with no interruption in the flow of goods – and in particular that materials can be delivered to production sites in good time.

The practical problems confronting companies demonstrate that a reasonable transitional solution is urgently required. Legal certainty and continuity in all regulatory issues must be ensured without fail.

The German automotive industry is adamantly opposed worldwide to customs duties and non-tariff trade barriers. It would be more than merely desirable to maintain the closely interwoven value chains with Great Britain. But in the event of Brexit the EU's absolute economic and political priority is the cohesion of the remaining 27 Member States.

UK: Passenger car production and exports (2016)

Passenger car production in the UK and export destinations (2016)




Source: SMMT

## Imprint


| | |
|---|---|
| Publisher | Verband der Automobilindustrie e. V. (VDA)<br>Behrenstraße 35, 10117 Berlin<br>www.vda.de |
| Copyright | Verband der Automobilindustrie e. V. (VDA) |
| Responsible for contents | Dr. Kurt-Christian Scheel<br>scheel@vda.de |
| Editors | Tineke Geywitz, Dr. Christoph Muhle<br>Key Policies, Coordination and Strategic Planning<br>geywitz@vda.de, muhle@vda.de |
| Contributors to this issue | Sandra Courant, Ralf Diemer, Stefanie Hennig-Senft, Dr. Martin Koers, Benjamin Krause, Angela Mans, Dr. Michael Niedenthal, Eckehart Rotter, Dr. Jakob Seiler, Dr. Monika Wünnemann |
| Design/Layout | DANGEROUS. Werbeagentur GmbH |
| Status | January 2018 |

FSC www.fsc.org MIX Papier aus verantwortungsvollen Quellen FSC® C084205


Note on data protection: We store and use your contact data in order to provide you with current information from VDA e.V. by regular mail or email. In order to avoid sending mail to the wrong addresses, we pay attention to ensuring that contact data stored with us are correct. Therefore, please notify us in good time if your contact data should change. You can send this notification by email to politikbrief@vda.de or by regular mail to Verband der Automobilindustrie e.V., Behrenstr. 35, 10117 Berlin, Germany. You can also write to this address to request the saved data or to object to the use of your data for the purpose of sending information.

VDA | Verband der Automobilindustrie