

<p style="text-align: center;">CARS21 SMMT position paper</p>

SMMT members are fully committed to develop, manufacture and sell products which meet high environmental and safety standards. The UK motor industry is focused on addressing the present and future challenges of improving road safety and minimising the impact of its products and manufacturing on climate change, air quality, and resource usage. In doing so, SMMT members are working with fuel producers and the UK Government to ensure that vehicles in the UK will continue to offer consumers choice and benefits while contributing to improvements in their present and future quality of life. The industry has made significant progress in addressing safety, air quality, climate change and resource use issues through both self-regulation and the implementation of European legislation.

The UK automotive manufacturing sector contributes around £8.5bn added value to the economy, and accounts for 1.1 per cent of GDP, 6.2 per cent of manufacturing value-added and 9.5 per cent of total UK exports of goods. Some 243,000 people are employed in the design and manufacture of vehicles and components, and a further 544,000 in the motor trades which supply, service and repair vehicles in the UK. In 2004, over 1.64 million cars and 209,000 commercial vehicles were produced in the UK. The main market for automotive manufacturers based in the UK is the European Union.

SMMT welcomes the establishment of CARS21, which offers the opportunity to achieve a balanced approach between the need to improve environmental and safety performance of vehicles whilst maintaining the automotive industry's global competitiveness. CARS21 should:

- Develop a consistent, more focused regulatory roadmap for 2005/2010.
- Reduce the cost of regulation for the automotive industry.
- Set clear targets so that progress can be measured.

The EU regulatory environment

- SMMT believes that good regulation, which is the product of extensive consultation with all the stakeholders involved, can bring significant social, environmental and economic benefits and can foster and reward innovative ideas.
- Regulation has played a significant role in driving some of the improvements in vehicle environmental and safety performance. However, in recent years, regulation affecting the industry in Europe has dramatically increased, without the parallel development of an overarching policy framework for the sector. The EU currently has almost 120 Directives, but there are also 80 UN-ECE Regulations concerning vehicles and more than 200 amendments have been made to these Regulations.

- The motor industry has implemented in recent years a wide range of European legislation, covering not only vehicles, but also manufacturing processes, environmental issues, marketing and sales as well as business and social (employment) regulation. The costs associated with complying with such regulations are very high and constantly increasing as new regulation is introduced. Furthermore, due to the high costs accrued by the collective burden of European regulation, the ability to invest for those manufactures which are predominantly Europe based is restricted relative to non-EU centred manufacturers.
- The costs associated with implementing conflicting and uncoordinated legislation are even higher. For example, Climate Change / CO₂ and Air Quality / Exhaust emissions are treated entirely separately, whereas the physics and engineering of these two subjects are directly linked to each other.

Role of CARS21

SMMT members, who operate on a global scale as well as in the EU market, must be able to maintain their competitiveness, whilst continuing to meet regulatory demands. The report on automotive competitiveness published by the European Commission last autumn concluded that it is impossible to reach a definitive conclusion about the future of the sector, drawing an uncertain picture of the industry in the long term. In order to ensure that Europe remains a competitive and attractive place to do business, where new automotive technologies can be developed, manufactured and sold to consumers, CARS21 should focus on the following priorities:

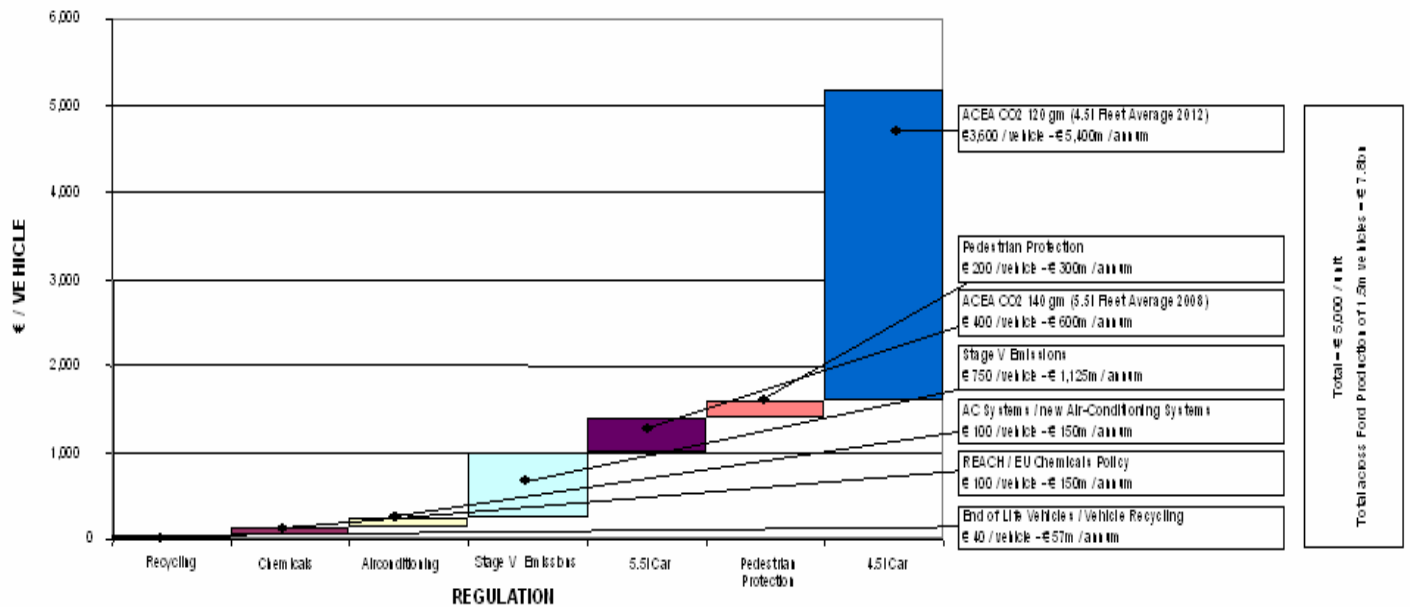
- Reducing the cost of regulation. The future EU regulatory burden could add significantly to the cost of a passenger car (as shown by the attachment provided by Ford Motor Company – European regulation could potentially add €5,000 to the cost of a car). Even though a detailed business impact analysis needs to be carried out by SMMT members to determine accurate figures for the whole industry, the industry agrees that the cost of vehicle technology to meet regulatory demands is increasing and will continue to do so and the technical improvement of cars will soon reach cost effectiveness limits. This will affect vehicle affordability – manufacturers will find it increasingly difficult to sustain the costs associated with regulation and the slowdown in car parc renewal will offset the environmental gains introduced by new technologies. CARS21 should put forward a set of proposals that if implemented would reduce the actual burden of regulation by a set percentage.
- Provide a more balanced approach to automotive regulation by introducing a regulatory road map for the next 10 years which should take into account that:
 - The huge amount of Europe specific regulation remains a key concern for manufacturers and component suppliers – Many environmental and safety regulations affecting the automotive industry in Europe are very stringent compared to the USA, with high implementation costs. SMMT welcome further analysis on this data.
- Working principles on which to base effective automotive regulation:

- Early engagement with industry (consultations and impact assessments are essential tools).
 - An overarching framework for regulations affecting the industry.
 - Technology neutral approach.
 - Establishment of sufficient lead times which take into account product cycles.
 - Considering Voluntary Action whenever possible.
 - Establishing an effective fiscal framework to foster R&D and encourage productivity.
- List of issues which SMMT believe should be included on the CARS21 Agenda:
 1. CO₂
 2. Air Quality
 3. Safety
 4. Type Approval (one-stop EU type approval for Commercial Vehicles)

The aim should be to achieve an integrated approach when developing new policies affecting the above issues.

Attachment 1

REGULATORY COST IMPACT PER VEHICLE



Note:

- Figures quoted are directional
- Ford analysis identifies a current cumulative risk that could be as high as €5,000 per vehicle