

# **Brexit, the UK automotive industry, and the end of policy**

**Professor Peter Wells**

Or...

Where we have been, where we  
are, and where we are going

# The Thatcher Legacy (Part 1)

- ▶ Red Robbo, Lame Ducks and the Aircraft Carrier



# The Thatcher Legacy (Part 2)

- ▶ The death spiral of British Leyland: blaming the workers?



# The regency period

- ▶ **Ford Jaguar Land Rover**
  - ▶ Caretaker role, but a lack of direction
- ▶ **BMW Rolls Royce MINI**
  - ▶ Making the MINI big in all senses; The Phantom Menace
- ▶ **VW Bentley**
  - ▶ The footballers' weapon of choice
- ▶ **Proton Lotus**
  - ▶ The endless quest to make Lotus profitable

# Fifteen years earlier...

- ▶ Automotive could have been a ‘sunset’ industry
- ▶ Economic and environmental pressures were immense
- ▶ Regulation was a threat not an opportunity
- ▶ Policy lacked alignment to industry and national goals
- ▶ It was a ‘now or never moment’

*“We believe that the (automotive) industry can have a long term future in the UK provided that industry and Government work together.”*

**Automotive Innovation and Growth Team (2002)**

# The policy journey

- ▶ **Automotive Innovation and Growth Team (2002)** challenged the view of the auto sector as a sunset industry.
- ▶ **LowCVP (2003)** provides a focal point for stakeholder engagement
- ▶ **Climate Change Act (2008)** provides a clear direction of travel to 2050
- ▶ **Technology Strategy Board (2007)** and **Advanced Propulsion Centre (2013)** provide consistent support for innovation
- ▶ **New Automotive Innovation and Growth Team (2009)** defined the industry's way forward
- ▶ **Automotive Council (2009)** became the focal point for industry - government dialogue
- ▶ **Office for Low Emission Vehicles (2009)** and **Green Bus Fund (2009)** create market conditions for low carbon vehicle uptake
- ▶ **Automotive industrial strategy (2013)** aligns industrial and low carbon objectives

# The performance 2003 to 2013

- ▶ UK automotive sector turnover grew from £46.3bn in 2003 to **£64.1bn in 2013**
- ▶ Productivity per worker **up 45%** from 2003 to 2013
- ▶ Exports accounted for **77% of UK car production**, up from 70% in 2003
  - ▶ And a richer product mix with more high-value cars
- ▶ Confirmed total value of £17.6bn in low carbon investments (approximately £40bn total by extrapolation)

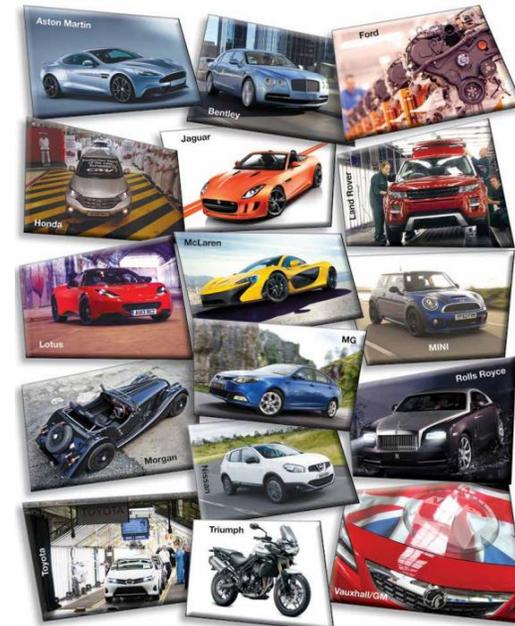
# The jewel in the crown

- ▶ Motorsport, technology and the new intermediaries



# State of the nation

- ▶ At end 2016 the UK was home to:
  - ▶ Seven mainstream car manufacturers
  - ▶ Seven commercial vehicle manufacturers
  - ▶ Nine bus and coach manufacturers
  - ▶ Eight premium and sports manufacturers
  - ▶ Over 100 specialist and niche manufacturers
  - ▶ Eight of the eleven F1 teams
  - ▶ 19 specialist R&D centres
- ▶ The UK automotive industry accounted for over 772,000 jobs of which over 169,000 were directly employed in manufacturing and 38,500 employed in motor sport.



# Positive outlook... pre-Brexit era

- ▶ UK could be producing over 2 million vehicles by 2020, with strong exports and lower carbon vehicles
- ▶ Engine sector likely to continue resurgence (already producing 2.5million units)
- ▶ Bus and coach sector expanding, partly thanks to low carbon models
- ▶ Low carbon innovators see UK as the best place to be

- Continue close Government-industry collaboration
- Long term policy frameworks for vehicles and fuels
- Low carbon innovation focus with 2050 in mind
- Embrace ambitious change in order to lead the market
- Strong influence in international regulation and policy

# Ups and downs

- ▶ Production, sales and the structural deficit 2016
  - ▶ £71.6 billion turnover
  - ▶ New registrations 2.63 million
  - ▶ New cars built 1.58 million
- ▶ Structural deficit approximately 1 million cars per annum
  - ▶ New cars exported 1.22 million
  - ▶ New engines build 2.36 million
  - ▶ Structural surplus in engines about 0.75 million units per annum

# Ins and outs

- ▶ Direct exports to the EU peaked in 2015 at 57.5% of the total cars produced in the UK
- ▶ Direct imports from the EU constitute 85% of all sales in the UK.
- ▶ EU accounts for around 800,000 sales of UK produced new cars
- ▶ EU accounts for around 1.8 million new cars sold in the UK
- ▶ Average value per UK car export was £20,600
- ▶ Average value per new car import of £13,000

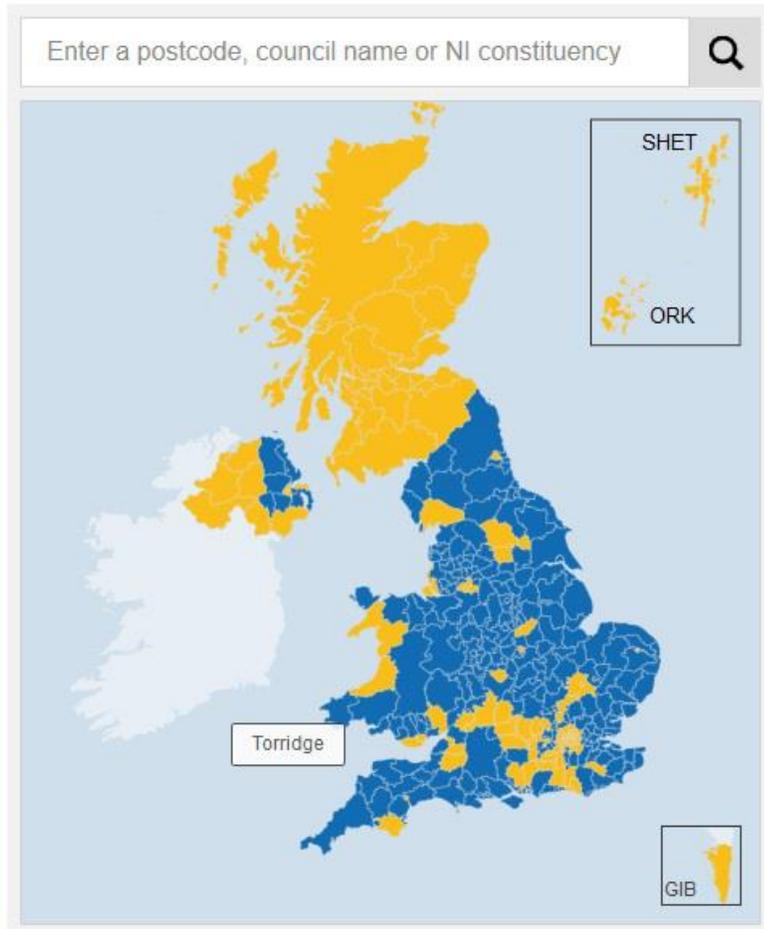
# Ins and outs

- ▶ Value of imports from the EU have grown from £14.3 billion to **£31.3 billion** between 1998 and 2014
- ▶ Imports from non-EU countries have grown from £2.2 billion to £4.0 billion
- ▶ Exports to non-EU countries have grown from £2.9 billion to £17.9 billion from 1998 to 2014
- ▶ Whereas exports to EU countries have only grown from £8.0 billion to **£11.9 billion** over the same period
- ▶ Ongoing trade deficit in automotive components, mostly attributable to the EU, of the order of **£12bn per annum**

# The establishment pre-Brexit view

- ▶ SMMT / KPMG automotive survey 2016
  - ▶ 92% of businesses surveyed preferred to remain
  - ▶ 70% responded that if the UK left the EU it would have a negative or very negative impact on business
  - ▶ 75% responded that it would have a negative or very negative impact on the scale and diversity of investment

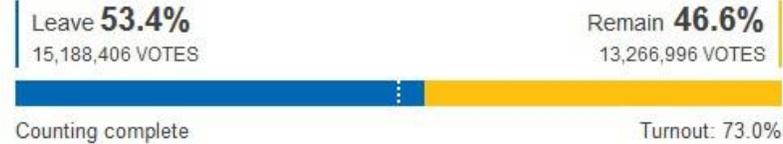
# Turkeys and Christmas: the vote results



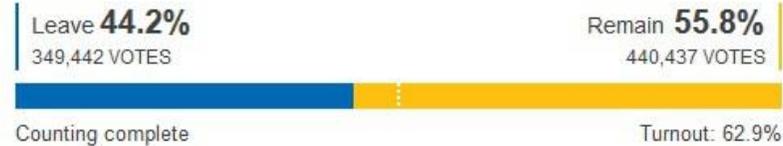
Key:

- Majority leave
- Majority remain
- Tie
- Undeclared

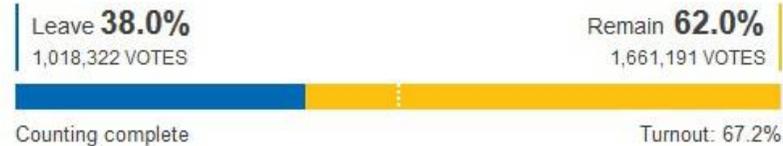
## England



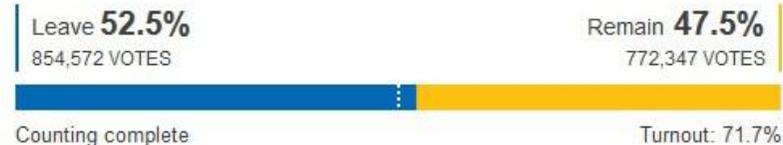
## Northern Ireland



## Scotland



## Wales



# Turkeys and Christmas: the vote results

- ▶ Nissan (Sunderland) voted 61.3% to leave
- ▶ Vauxhall (Ellesmere Port) voted 50.7% to leave
- ▶ Vauxhall (Luton) voted 56.5% to leave
- ▶ Solihull (JKR) voted 56.2% to leave
- ▶ Bridgend (Ford) voted 54.6% to leave

# When a channel becomes a wall

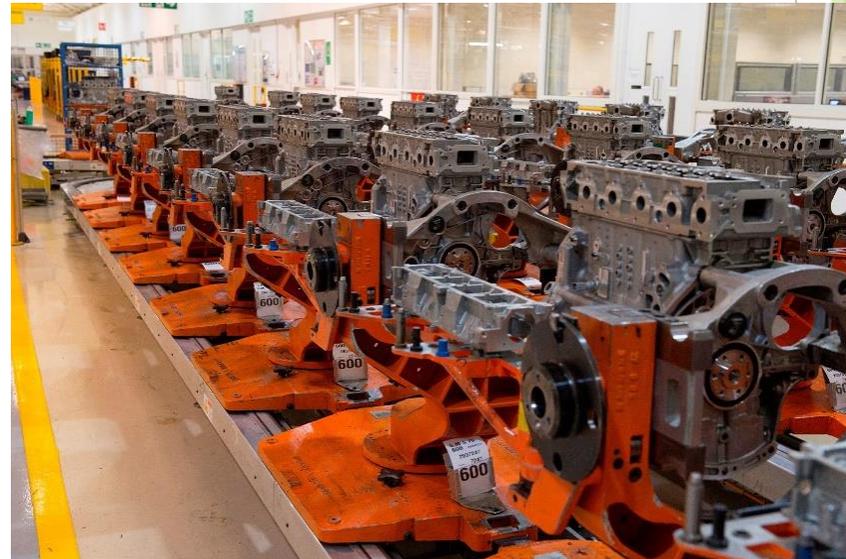
- ▶ Nissan Sunderland
  - ▶ Biggest single plant in the UK
  - ▶ In 2015 invested £137m into the plant for the Juke model
  - ▶ New Qashqai and X-Trail confirmed after exit vote
  - ▶ “The support and assurances of the UK government enabled us to decide that the next-generation Qashqai and X-Trail will be produced at Sunderland” (Carlos Ghosn, CEO)



# When a channel becomes a wall

- ▶ Ford
  - ▶ Ford has said that the exit decision will cost US\$600m per annum
  - ▶ Over 1,100 workers to lose their jobs at Bridgend
  - ▶ Scant prospect of new investment
  - ▶ JLR work lost to new plant in Midlands

Ford UK sales 2016 were 320,000  
or 11.83% market share



# When a channel becomes a wall

## ▶ Vauxhall

- ▶ Purchase of GM Europe by PSA has challenged their future
- ▶ Car plant and van plant at risk... workers told to fight for their jobs
- ▶ UK biggest market in Europe for GM with circa 200,000 units per annum



GM Europe anticipated an additional \$400m in costs arising from decision to leave the EU

Prices up in the UK by 2.5%

Production cuts in Germany for export versions to UK

# When a channel becomes a wall

## ▶ JLR

- ▶ In total, produced more cars than any other company in the UK in 2016
- ▶ Jaguar Land Rover have a more diverse market portfolio: retail sales in YTD April 2016 were 20% UK, 24% Europe
- ▶ Investing outside the UK (e.g. India; Brazil; China; Slovakia)
- ▶ Estimates profits could fall by £1 billion from Brexit decision
- ▶ May suffer in US if Trump imposes import tax



# When a channel becomes a wall

- ▶ Toyota and Honda
  - ▶ Toyota reaffirmed commitment to stay in the UK
    - ▶ Assembly plant and engine plant
    - ▶ New investment of £240 million announced
  - ▶ In 2016 Honda invested £200m in Swindon plant for new Civic 5 door and took on another 500 staff
    - ▶ Seen as 'huge' boost for Teresa May after exit vote
    - ▶ Lower value of £ has helped boost exports
- ▶ But currently both produce low-margin products with a high reliance on the EU market... wait until model replacement time.

# I'm a car manufacturer, get me out of here!

- ▶ Ford Genk plant had 4,000 workers and cost US\$750 million to close
  - ▶ That's US\$190,000 per job!
- ▶ Closure of Opel Bochum plant with 3,300 workers
  - ▶ Cost US\$754 million
  - ▶ Plus site clean-up expenses
- ▶ Barriers to exit remain significant in the automotive industry

# The post-Brexit era and the end of policy

- ▶ Ideology and the failure of logic:
  - ▶ The immigration issue
  - ▶ The sovereignty issue
- ▶ UK automotive wage bills averaged 7.5% of total operating costs, and 7.7% of turnover
  - ▶ The EU tariff could be greater than this
  - ▶ BUT the government cannot subsidise the entire wage bill
  - ▶ Neither can the government escape anti-dumping regulation
- ▶ Environment policy also being diluted

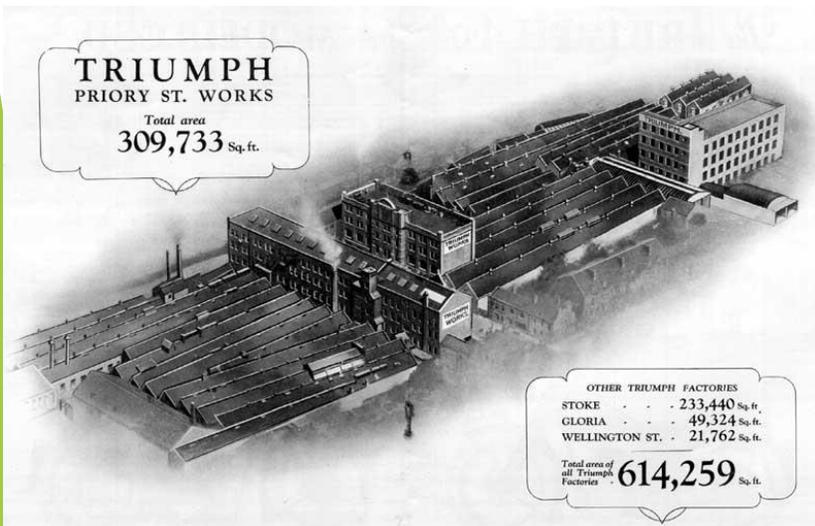
# And so...

- ▶ EU has a standard barrier of 10%
- ▶ EU requires at least 60% of the ex-works value of the car to be of local (i.e. EU) origin
  - ▶ The value of all supplied materials used in a products' manufacture; all costs (material costs as well as other costs) effectively incurred by the manufacturer; and any profit.
- ▶ UK value content of cars assembled in the UK from an approximate 40% in 2015, with a target of 50% by about 2020
- ▶ 'Reshoring' sourcing was anticipated to offer up to £4bn additional spending within the UK tier 1 supply base

# For auld lang syne (former days and friends)

- ▶ Global production in 2015 of all vehicles was 90.7 million (OICA, 2016) of which the UK accounted for 1.68 million
  - ▶ Greater share of UK market unlikely to offset lost sales in EU
- ▶ Shortages of skilled labour could be a critical impediment to progress in the future
  - ▶ 10% of UK automotive employed from the EU
- ▶ In 2005, automotive R&D was £744m or 5% of the UK total R&D spending; by 2013 it was £2,020m or 11.2% of the UK total
  - ▶ 91% was attributable to foreign-owned businesses

# CLOSED FOR BUSINESS



*Sorry* We're  
**CLOSED**

