

What a difference a decisive election makes

The latest book in our Bite-Size Brexit range is now published! 'Carmageddon?: Brexit & Beyond for UK Auto' looks at the manufacturing industry at the heart of the issues around Brexit, with the industry's sophisticated just in time and other major logistical challenges.

The book, edited by Professor David Bailey, Professor Alex De Ruyter, Neil Fowler and John Mair, brings together a wide spectrum of industry experts and world-renowned auto industry figures, providing a real perspective on Brexit at the raw edge. Contributors include leading auto analysts, top automotive journalists, politicians and academics.

Today, we are delighted to share Neil Winton's contribution to the book. Neil is a Forbes contributor, writing about the global automotive industry. He worked for Reuters for more than 30 years with beat assignments including Science and Technology, European Automotive, and Millennium Bug. He also wrote the European Perspective column for the Detroit News, and publishes the automotive analysis website <http://www.WintonsWorld.com>.

Enjoy...

The British auto industry may be freed from Brexit indecision, says Neil Winton, but it can't escape its many existential problems

Chaos, indecision and weakness of the last three years have been replaced by a government with a powerful majority in parliament, and a clear vision of what it wants for British business in general and the auto industry in particular – namely a free-trade arrangement with the European Union (EU).

A year ago, the outlook for the British auto industry looked bleak and uncertain as Brexit talks stumbled. Investment was on hold because the future of Britain's trade with the EU was impossible to predict.

Sales of cars and SUVs slipped, as worries about the future restrained private buyers.

The then government's Brexit negotiating position with the EU looked weak with expectations that a free-trade deal would be denied. A World Trade Organisation tariff regime loomed.

Britain had a government unable to act effectively because it lacked a parliamentary majority, and no realistic prospect of acquiring one. Britain's 'Remainer' political faction seemed to have the upper hand. It had the power in parliament to stop the progress of Brexit, but not enough to kill it off. It convinced EU negotiators that Brexit might well be reversed if they could just hold their nerve.

The prospects of a deal which wasn't far short of Britain actually remaining a member of the EU, without the voting rights, loomed large. That would have been a dream outcome for the EU; all the advantages of free trade with a huge market, without Britain's semi-detached trouble-making that it could wield as an EU member.

Bleating in unison

The British auto industry representatives were bleating in unison, so desperate were they to avoid any change in their cosy arrangements with the EU. But it turned out that for those willing to peak behind the scenes, this status quo, which the likes of the Society of Motor Manufacturers and Traders (SMMT) wanted to hang on to so desperately, hadn't been providing the benefits spelled out on the tin.

Data from the Office of National Statistics (ONS) showed Britain's auto trade with the EU over the last 20 years had barely gained in volume, while imports soared. At the same time exports with the rest of the world under WTO rules had advanced hugely, despite the tariffs.

And again counter-intuitively, many countries, the US for example, had a more successful record of general trading into the EU over a 20-year period with a 10 per cent tariff, than Britain had from inside the free-trade zone. During the dark, indecisive days of Brexit negotiations, one problem loomed large for the industry. Would big manufacturers like Nissan, Toyota and Honda (now about to upsticks

and leave anyway) get a deal that would allow them not only to trade freely with the EU, but guarantee smooth running of its complicated supply lines from across Europe?

Now that seems close to becoming reality, the point has become moot. Ironically, early last year Japan and the EU finally signed a free-trade agreement which might well make their British factories redundant in the long term.

The election result of December 12 changes everything. Britain formally left the EU on January 31, 2020, and there is an 11-month period to negotiate the free-trade deal, with a couple of hurdles along the way. The EU now knows that Britain is definitely leaving, so its negotiators can forget the politics and pursue a deal which benefits both sides.

And despite the frenzied politicking and blind panic of the SMMT, it is clear the auto industry need not fear having to trade with the world under WTO rules. So sunlit uplands await the British auto industry?

Decade of disruption

Maybe, but the global industry faces a decade of disruption as electric cars and computer-driven ones gradually replace conventional vehicles. The whole idea of individual car ownership is being questioned. And it's not clear who the winners may be – perhaps cash-rich high-tech interlopers – or where they will be located.

Peter Wells, Professor of Business and Sustainability at Cardiff Business School, said Britain's mass-market auto industry has been weakening for some time: "The future of the UK automotive industry is particularly bleak because the decision to leave the EU, with all the economic uncertainty and probable added cost entailed, comes at a time of massive and rapid technological and business convulsions sweeping through the industry," he said.

Wells said even before the exit decision it was clear the UK was becoming too expensive to compete in the lower margin segments, despite good quality and productivity. Britain's auto industry may return to pre-EU conditions where, as imports become more expensive and exports more difficult, UK output may focus on the

home market. This might work if cars become more of a commodity and less of a status symbol.

Wells said the long-term future for the industry is more likely to be a smaller domestic industry producing high-margin vehicles. Other experts say there will be big challenges for the auto industry outside of the EU, but it should thrive nonetheless. Any free-trade deal with the EU will be relatively easy because it really amounts to simply consolidating what already exists.

The industry will have to raise productivity because it will no longer be able to hide behind the 10 per cent tariff barrier provided by the EU. The industry won't welcome having to improve efficiency but the likes of Jaguar Land Rover (JLR) already manage to do this very successfully. Now they will be able to source components not just from the EU but also the rest of the world.

Japanese quandary

The free-trade deal with Japan raises the question about whether Toyota and Nissan would want to remain in the UK even if it were firmly in the EU for the long term. It's unlikely in the short term that these companies would want to shut down very efficient factories because big global manufacturers need to insure themselves against things like exchange rate fluctuations and perhaps tariff wars too. Having a paid-for alternative makes good business sense.

Phil Radford, trade analyst and author of nothingtofear.co.uk, said if a free trade deal is agreed, exports to the EU will be stagnant, as they have over the last 20 years. Japanese manufacturers will eventually withdraw because there won't be a competitive advantage from staying. Premium manufacturers like JLR and BMW's Mini will continue to invest in mainland Europe production, and of course when they export to say, the US, those sales won't count as UK exports.

"Thus the impact of an FTA will not just be the mid-term end to UK-based mass-market motor market manufacturing, but a steady diminution of UK premium marque motor manufacturing," Radford said.

Nobody, at least in the short-term, now seems to expect no deal, but if there was a failure, Radford initially expects the British government to mirror the EU 10 per cent tariff. This would save the mass market industry in the short term, but the likes of Nissan and Toyota would have to radically sharpen their business model, or leave.

“The key thing with the Japanese manufacturers is that they have signally failed to create the sort of vast market in the EU that would justify the UK needing an FTA that covered autos post-Brexit,” Radford said.

From 2000 to 2018, Nissan raised its market share in Europe from 2.9 to 3.2 per cent, Toyota from 3.6 to 4.5 per cent, and Honda’s fell from 1.3 to 0.9 per cent, according to carsalesbase.com. In contrast in the US, Nissan’s market share rose from 3.9 to 7.8 per cent, Toyota advanced from 8 to 12.3 per cent, while Honda spurred from 5.9 to 8.3 per cent

Long-term industry direction

Fitch Solutions Macro Research welcomed the fact a clear path was being mapped to finally leave the EU. It pointed out that the long impasse over the Brexit issue had led to many manufacturers postponing or cancelling investment, and that this wouldn’t be reignited until the long-term direction of the industry in Britain had been re-established.

“There are carmakers waiting for concrete details on future trade to make decisions over their UK operations, such as PSA Groupe, which has said the future of its Vauxhall plant in the UK depends on favourable Brexit conditions. With this in mind, any delays to a long-term trade deal would pose considerable risk to the production side of the industry,” Fitch said in a report.

Automotive consultancy ICDP welcomed what it called the first clarity about Brexit in more than three years, as the UK will now definitely be leaving the EU, but it also opened up a new phase of uncertainty as the negotiations between Britain and the EU were likely to be complicated.

ICDP said in a report, published before the British government said it would legislate to stop an extension of the talks, that there probably would be extensions to the transition period. This is likely to be true because even if the British government says there will no extension, the EU might not go along with that. And if a short extension of hours or days was required, it seems unlikely the UK would call the whole thing off.

ICDP also expected a delay before any serious manufacturing investment was resumed: “Manufacturers considering their investments in the UK will have no choice but to play safe and put their money elsewhere, and the uncertainty will feed in to the general economy, so that the car market itself will be held back at a time when it needs confidence to invest,” ICDP said.

Unanswered questions

Consultancy Capgemini was loathe to speculate on how the saga would end: “There are so many unanswered questions. Will Brexit have a major impact on the economy? How will consumers react; will there be a drawback in consumer spend? It’s not possible to comment at this stage, there are so many factors that could play in this new situation that it would be pure speculation,” said Capgemini Global Automotive Lead, Markus Winkler.

Currently, Britain hosts big car factories from Toyota and Nissan, while Honda has announced it was pulling out in 2021. There is JLR and BMW’s Mini and Rolls Royce. Vauxhall, now a part of PSA Groupe, operates a big plant at Ellesmere Port, near Liverpool. There are also specialist vehicle makers like VW’s Bentley, McLaren, and Lotus.

HS2 solution

Trying to predict the long-term future of the auto industry is indeed more difficult than ever. Imagine there’s an early, say 2025, breakthrough in computerised cars. If you could click on an app on your phone, and wherever you were in the country, (well not Dartmoor or the Scottish Highlands) an anonymous little high-tech bubble appeared within two minutes. You’d never need to buy your own car again, and would you really care if was a Skoda or a BMW?

And this would solve another problem. When HS2 is finally built, probably for £200bn, nobody will want to travel by train anymore anyway, but it will make a magnificent high-speed track for autonomous cars going north and south.

‘Carmageddon?: Brexit & Beyond for UK Auto’ is available NOW, in paperback and digitally, [here](#).