

Brexit, the UK motor industry, and Australia

By John Wormald, Managing Partner of Autopolis Strategy Consultants

Ted Heath took the UK into the then EEC so that its businesses might access a thus greatly enlarged home market. However, dropping the tariff barriers around the UK led, by painful stages, to the virtual elimination of the UK motor industry by Continental competitors. It suffered from atrocious industrial relations, poor productivity and quality, and products that were not always up to modern design standards.

A new motor industry was later created in the UK in the form of the transplants, all three largest Japanese manufacturers. They needed a bridgehead to circumvent the common external tariff and, most particularly, the 10% European market share ceiling placed upon them by a voluntary restraint agreement, negotiated at the behest of their European competitors.

The British government fought hard to get its European partners – France in particular – to accept that Japanese cars built in the UK were European. The government developed a real understanding of the realities of the motor industry and a good relationship with the Japanese manufacturers.

A whole new industry was born, flanked by major learning about Japanese production methods. 80% of the transplants' production is exported, with the EU as the dominant destination. Most cars sold in the UK are imported, most of them from the rest of Europe. Component supply in the UK never returned to previous levels, most of it now coming from the EU.

The whole arrangement depends on intensive and obstacle-free inter-trading with the rest of Europe. In effect, the UK has mainly become an assembly satellite, an automotive industry in the UK, rather than a fully-fledged UK automotive industry. The only major exception is Jaguar Land Rover, which has a long and strong brand history, distinctive products,

and some original technologies, notably in aluminium bodysells, and exports much more widely.

As Carmaggedon? Brexit & Beyond for UK Auto discusses, a hard – and possibly very hard – Brexit poses an existential threat to the automotive industry in the UK. On top of that, the industry is now suffering a brutal demand-side shock, as confinement has radically reduced levels of driving.

Damage to the economy will be severe and depressed new car markets will persist long after the pandemic is over. But it goes further than that. The industry is already under severe pressure from environmental problems. Worse, habits acquired during confinement may very well persist, accelerating an already perceptible trend of substitution of physical mobility by virtual presence.

Australia built its own automotive industry after 1945 but finally lost it again in 2017, when local production of light vehicles came to an end. Is this relevant to our subject of Brexit and the industry in the UK? We think so, because the arguments in favour of Brexit largely rest upon traditional concepts of sovereignty, which are largely obsolete for global businesses, and generic claims about Britain freeing itself from a “sclerotic” and over-regulating EU.

The Brexiters, led by Boris Johnson, largely dismissed and ridiculed the concerns of business, and show no inclination to understand the details of particular sectors of the economy.

Government has a major role to play in promoting economic development and redeployment. But it needs to think very carefully about what it should support and why and how, looking to ensure sustainable future businesses, rather than trying to save the past. Sweeping, ideologically motivated generalizations will not do.

This is the real subject of our book, National Policy, Global Giants – how Australia Built and Lost its Automotive Industry, by John Wormald and Kim Rennick, Cambridge University Press, ISBN 978-1-108-46606-4. The first part of the book sets the scene: how the railways, perhaps *the* driving technico-economic phenomenon of the 19th century, were displaced by the automobile in the 20th, and how the automobile is now

showing signs (perhaps reinforced by Covid-19) of being displaced by the Internet. The steady, incremental technological development of the automobile and of a strikingly structured and disciplined automotive industry.

The cost-driven drive for scale and the emergence of a set of interrelated global oligopolies, dominated by established players. The often unrecognised role of the systems and components suppliers. The often conflictual relationship between governments, defending the common interest in matters of safety and environmental protection, and the industry; their role in promoting and defending national automotive industries; and the roles which different countries have been able to play within the global industry.

The second part of the book replays this sequence in the case of Australia: the extensive motorisation of the country, for reasons very similar to those in the US; the great growth of the car market but also its radical transformation, as Australian society was transformed; the creation of a complete automobile industry, for economic and strategic reasons, in a country with only 7.5 million inhabitants in 1945; its great initial success, while protected by strong tariff barriers, its growing problems, as economic policy was reversed from protectionism to open markets; the complex and often difficult relations between manufacturers in Australia and their overseas parent groups; the inherent problems of an isolated and badly sub-scale components sector; and the growing contradictions in the automotive industry support policies of successive Australian governments, leading to ultimate collapse.

We conclude with a critical review of government reviews of the industry, concluding with the imperative need for adequate sectoral understanding in the development and deployment of support policies.

Like Australia, the UK built up a national motor industry – and then lost it through market opening. Unlike Australia, it got a second chance, through membership of the EU. Australia is not a natural satellite production location, on the edge of a large continental market, although Toyota tried to treat it as such, building one of its global products there (the Camry) and exporting two-thirds of production.

The UK now runs a real risk of throwing away what it rebuilt. Fantasies of regained sovereignty and empty slogans don't cut it in the world of global business. Australia never really stood a chance in a globalized automotive industry; the UK is throwing away its role.

Both need to think very carefully about the other sectors in which they realistically could compete and establish a defensible position.

John Wormald is Managing Partner of Autopolis Strategy Consultants, which he co-founded in 1993. The firm specializes in the structures and functioning of the automotive industry, and has assisted clients in and around it throughout the world. He is the co-author of two previous books about the industry, published in 1995 and 2005. He was previously with Booz, Allen & Hamilton, Renault, and the Boston Consulting Group.