# UK auto shuts down: government needs to step in to support workers, and fast, as Coronavirus hits

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While Jaguar Land Rover (JLR) is still producing cars in the UK (for now), the rest of the UK mass auto industry has effectively shut down, as the devastating economic effects of Coronavirus unfold across Europe, disrupting supply chains and also dramatically reducing demand.

Nissan, BMW, Honda, Toyota and Vauxhall have all announced that their assembly and engine plants will be temporarily shutting down UK production – for how long is not yet clear. These plants employ over 20,000 workers directly and many more in the supply chain.

Other manufacturers like Airbus have also announced plant shut downs.

There is a fear as to how much of the auto industry will actually survive the crisis here in the UK. The Chief Executive of the Society of Motor Manufacturers and Traders, Mike Hawes, hit the nail on the head when he said that the auto industry stands “on the precipice”.

In previous blogs I’d described the situation facing the UK auto industry last year as a ‘perfect storm’ in terms of the shift away from diesels in the wake of the Volkswagen scandal, a volatile Chinese market (which had a big effect on JLR in particular) and Brexit uncertainty slowing the economy – and hence car sales and output. The Coronavirus brings ‘Perfect Storm Part 2’, sadly.

As assemblers shut down, orders for component manufacturers dry up and there is a cascade effect on the supply chain. Supply chain firms will have to start shutting down also. While workers at Toyota are being paid wages for now, that will not be case in parts of the supply chain.

The fear here is over a scarring effect on the long term capacity of UK automotive and manufacturing. The longer the shut downs go on, the more likely there will be a permanent impact on an industry that has already been struggling, and parts of an otherwise viable supply chain could be lost.

Not only is there a major supply chain issue, but the major assemblers themselves will be facing a big cash hit as consumers postpone purchasing cars. While auto firms' plants in China are just coming back into action, they are closed in Europe and the US. Ford for example has just suspended dividends and has drawn down some $15.4bn in credit lines.

The crisis comes at a time when International auto markets had anyway been slowing or stagnating, while at the same time car firms are having to invest huge amounts on a raft of new technologies, especially electric vehicles (EVs). A big squeeze is effectively playing out, and scale is seen as increasingly important for car firms.

So the shut downs will weaken firms and push them further to merge and consolidate. Auto firms will review investments and what models they produce, and where.

That poses further big questions over the position of some UK plants which anyway face uncertainty over the nature of the UK's trading relationship with Europe at the end of 2020.

Given this, we might learn some useful lessons from other European countries in how they are supporting employment and not only in manufacturing. Such support takes a number of forms but one comes in support to keep workers in their jobs when shocks hit.

For example, in Germany, there is a long tradition of using *'Kurzarbeit'* short time working support.

Conditions for the deployment of short-time work include economic difficulties, such as sharp declines in demand. The scheme was used very effectively in the wake of the Global Financial Crisis, bringing praise from JCB Chairman Sir Anthony Bamford on how German industrial capacity was retained, in contrast with the British experience.[1]

The approach was used again in response to the 2011 Japanese earthquake and tsunami which affected critical components for the European auto industry and saw auto plants temporarily closed.

It is now being used again to support workers facing cuts in hours worked at German businesses, paid out at a maximum two-thirds of the wage fall experienced by workers.

Similar wage replacement approaches have been developed in Denmark, and a short term lay off scheme in Sweden enables employers to reduce wage costs and temporarily stand down workers, while the latter still receive 90% of their wage.

There are a number of advantages to such schemes. Not only do they keep workers in their jobs and maintain their incomes (up to a certain level), but they help keep manufacturing (and other business) capacity in place ready for when conditions improve. In Germany the scheme has also been combined with retraining so that workers are able to learn to use the latest technologies, which boosts productivity longer term.

There is a precedent here in the UK the Welsh government used the 'ProAct' wage subsidy scheme successfully during the global financial crisis. This was used to fund training during the recession up-skill staff in readiness for the upturn, with some success.

At the time of writing we are awaiting a government announcement on what support will be offered to employees in the 'gig economy' and on zero hours contracts. Such measures will be vital. So too is a short time working scheme to help keep workers in their jobs across the economy, and especially in manufacturing industries like automotive.