

Policy will matter

The next book in our Bite-Size Brexit book series, 'Carmageddon?' launches later this month. The book, 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.

Before you enjoy 'Carmageddon?' though, we're keen to share Professor David Bailey's piece in our last Automotive book 'Keeping the Wheels on the Road: UK Auto Post Brexit', which was published in early 2019. Professor David Bailey thinks ahead to what short and longer-term strategies will be needed post Brexit to support UK auto in the chapter.

Enjoy...

Policy will matter

The state of the UK's automotive industry (hereafter 'UK auto') seems to capture the zeitgeist of current concerns over Brexit in general and no deal in particular.

Partly the focus on auto arises because, until recently, it had been seen as something of a star performer in the UK economy, unlike many other manufacturing sectors. Output increased by 60 per cent over 2010-2016, with in excess of £8bn worth of investment in the industry over the same period.

The sector supports some 850,000 jobs in total in the UK. This upturn benefitted regions, such as the West Midlands, which had struggled with deindustrialisation, plant closures and the legacy of the global financial crisis.

There are a number of reasons for this automotive industry success up to 2016: the quality of the skills base, cooperative working between unions and management, strong links with universities, a supportive industrial policy, a shift upmarket leveraging UK innovation and design, and so on.

Instrumental in making a success of these was – critically – the UK being part of the EU Single Market, with significant foreign direct investment (FDI) by multinational automotive original equipment manufacturers (OEMs) coming to the UK to access and serve the Single Market.

What's more, the auto industry in the UK is seen as having benefitted from the UK's EU membership through the EU cutting trade deals with the rest of the world, in the UK influencing EU regulations affecting UK auto, and in accessing skilled workers and European research funding and networks.

Fasten your seatbelts

And there's the rub. Such factors will now be re-evaluated by automotive firms in the wake of Brexit, and here a bumpy ride awaits.

Of late sales and output in the sector have fallen (down 7 per cent and 9 per cent respectively in 2018), linked in part to a cooling of the Chinese economy, a shift away from diesels, and uncertainty over Brexit affecting confidence. Investment has declined markedly (down by 80 per cent since 2016) as OEMs and suppliers postpone investment decisions, awaiting clarification on the form of Brexit and the UK's future trading relationship with the EU.

With some major OEMs' model replacement decisions looming (e.g. the Vauxhall Astra model at Ellesmere Port), this raises the risk of assembly shifting elsewhere if uncertainty continues. And even if Parliament does support a Brexit deal, the transition period offers only short-term clarification on trading on existing terms; longer term, a new trading arrangement needs to be agreed, again raising issues of uncertainty for the sector.

The industry is also seen as heavily exposed to the form of Brexit given the nature of its integration into automotive value chains across

Europe. Not only do fine-grained supply chains cross borders many times, so possibly being affected by tariffs in the event of no deal, but the nature of modern just-in-time (JIT) delivery means that assemblers keep limited stocks to keep costs down. Components flow across the Channel on a daily basis as they are needed and in the order they are required. Even minor disruptions to customs arrangements could have a major impact on supplies and hence existing business models for auto assemblers operating in the UK.

A no-deal scenario is seen as an 'existential threat' to UK auto by the Society of Motor Manufacturers and Traders (SMMT), given exposure to tariffs and customs delays; Henry in this volume points to a production loss of at least 175,000 cars a year in the event of no deal. This is just the short-term hit, however; longer term we would likely see plant closures.

Longer term this immediate output loss would rise substantially if UK plants are shut in the wake of a no-deal Brexit. Ford Bridgend, Vauxhall at Ellesmere Port and Jaguar Land Rover at Castle Bromwich in the Midlands are three sites which are the most vulnerable in such a scenario. And note that there would be no coming back; capacity would be permanently reduced. There would be a scarring effect on output and employment. Don't expect a wave of Japanese, or Korean or Chinese investment to turn things around as in the 1990s. Japanese investors came to the UK to access the EU's Single Market, after all.

Deploy airbags

The shock to the auto industry of no deal would have profound impacts on UK auto, including its suppliers, workers and the places hosting such activity. Policy responses would need to draw on earlier experience in dealing with automotive shocks to cushion the blow – such as the Rover Task Force and the Automotive Response Programme in the Midlands in the wake of the global financial crisis.

Such previous experience has pointed to the need for a range of measures to anticipate and respond to shocks. Given that the production hit would cascade down the supply chain, business support would need to include help for otherwise viable firms through measures such as loan funds, temporary wage subsidies,

diversification advice, and tax and rate relief.⁵ Workers would need support in terms of training and retraining. Places hit would need measures to remediate sites, improve connectivity and regenerate places, in turn raising questions over the degree of devolved powers to achieve this.

It is not at all clear that government is prepared for such wide-ranging policy interventions.

Take another road?

Of course, avoiding no deal should be a priority. Staying inside the Customs Union is essential for fine-grained automotive supply chains to run efficiently, and avoiding non-tariff barriers will be key longer term; the aim should be to effectively give UK auto something like access to the Single Market.

And beyond this, the UK will need to more than just a new trade relationship with the EU.

For example, Britain will need to do much more to create and develop its own skills given that one in 10 manufacturing workers in the UK come from another EU country; this means developing better systems for education, skills training, and re-training as part of a wider industrial policy, and one which is determined much more locally than it is now.

Sadly, on the latter – despite much early hype – the Theresa May Government's industrial strategy was something of a damp squib, seemingly killed off by a hostile Treasury that was anti-intervention and anti-devolution to the regions. So much for joining up industrial policy with 'place'.

But there is something to build on. What's been particularly encouraging over the last decade has been the work of the Automotive Council, which started at the end of the Labour administration and which developed under the Coalition Government (thanks to Vince Cable) into an effective body in fostering public-private cooperation.

The Council's work has, for example, set out clear priorities for key automotive technologies that need to be developed (such as on powertrains, light weighting and intelligent mobility) which has both aligned government support and funding and has underpinned business confidence and investment.

The Council's work was backed up by a range of (modest) interventions to boost skills, rebuild supply chains, and encourage investment in the industry, such as through the Regional Growth Fund, the Advanced Manufacturing Supply Chain Initiative, the Manufacturing Advisory Service (MAS), and MAS's Tooling up Fund to support investment in tools in the supply chain.

Sadly, most if not all of these policy interventions were scrapped by Sajid Javid during his time as Business Secretary. That was a big mistake as where policy was reasonably well developed, it really did make a difference. And while the subsequent industrial strategy under May and Greg Clark put in place 'sector deals', the funding on offer was a fraction of previous support.

Route guidance

So going forward, what is to be done?

Firstly, the work of the Automotive Council should be continued but backed up with far greater resources, to support innovation, skills development and supply chain building.

Secondly, sector and place need to be combined: the Government needs to look again at the degree of devolved powers. It will need to return to development bodies that can intervene more widely and strategically at a regional level, and do 'smart specialisation' through regional-level industrial policies. Combined authorities may be one way to do that (in cities at least). Beefing up the local growth hubs to fill the vacuum left by the abolition of MAS could be part of this 'combined authority plus' model, as would devolution of skills funding to the regional level.

Thirdly, there is much more that the Government could be doing in really trying to 'rebalance' the economy and reduce Brexit-induced uncertainty, for example by stimulating investment in manufacturing

such as through enhanced capital allowances, by resurrecting something like the Advanced Manufacturing Supply Chain Initiative (preferably on a much wider scale), and by plugging funding gaps for small firms in the supply chain.

Fourthly, there is a need to support to modernise and reorientate the sector so as to find new development paths; much more policy dynamism is needed to support the transition to a connected, autonomous and alternatively powered automotive future, as Burden and Bailey note in this volume.

Finally and more broadly, there is a strong case for UK industrial strategy to be afforded an institutional status similar to both UK monetary and fiscal policies. At the very least, it should be the subject of regular strategic long-term reviews. By giving it that sort of priority, the new government would send out the kind of powerful message that British industry and foreign investors need to hear given recent uncertainty.

None of this is a panacea for a messy Brexit. But regardless of the form of Brexit, a more interventionist industrial policy will be required for UK auto going forward, building on the public-private cooperation that has been developed so well over the last decade, and in contrast to what some deregulation-minded Brexiteers might suggest.

‘Keeping the Wheels on the Road’ is available NOW in Paperback and Digitally on Amazon [here](#).

Join us at the launch of ‘Camageddon?’ in Birmingham later this month. Find out more and register for your FREE tickets [here](#).