

# Brexit and the UK Automotive Industry: The Report Launch



*By David Hearne, Centre for Brexit Studies*

Today saw the launch of a [project](#) between the Centre for Brexit Studies and commercial partner OpenText. After a brief introduction by Centre Director Professor Alex De Ruyter, Tom Leeson introduced

both the work done by OpenText as an Enterprise Information Management firm and the project undertaken by the Centre. Tom discussed the role of Information Management technologies and the fact that they may play a role in facilitating post-Brexit trade. The point was made that Brexit is a major event with the potential to change business practices.

This was followed by Professor De Ruyter, who introduced the [project findings](#). An entertaining and informative talk began by discussing the demise of the automotive sector in his native Australia – pointing out the salutary lesson that the withdrawal of one manufacturer led to such damage to the wider supply chain that manufacture rapidly ceased to be viable. An outline of the motor industry in the UK followed, pointing out the fact that the sector sources an enormous number of specialist components from the rest of the EU. The wider economic linkages of the sector are all-too-often overlooked – after all, in 2014 the wider sector even spent £47m on food<sup>[1]</sup>!

Indeed, “in an industry dominated by ‘just-in-time’, proximity is everything”. In such a context, “geography dominates”, as has been found in empirical studies (most notably those involving gravity models) throughout the economic literature on trade<sup>[2-6]</sup>. This theme was returned to again and again throughout the conference. As one interviewee quoted in the [study](#) pointed out, “the automotive industry has trained Britain to be a just-in-time society”. As such, just one component that is stuck on a truck can lead to the half of a complete manufacturing process with substantial financial implications, both for the manufacturer and throughout the supply chain.

The second major issue discussed through the presentation was the uncertainty created by Brexit and the ongoing process. As such, as Professor De Ruyter pointed out, “[n]egotiations for a new economic agreement prolongs the uncertainty” faced by businesses even in the event of a withdrawal agreement. This theme was also picked up at several points throughout the event. On a macro-level, this will require a supply-chain mapping exercise to be undertaken by major national and regional actors. For firms, the imperative is to enable greater understanding of the wider supply chain (including tiers 2 & 3 and below), combined with actions to facilitate trade. This is likely to involve greater use of digital platforms and e-documentation. Whilst OEMs typically already use many of these, there is an urgent need to

cascade such technologies down their supply chain and to understand precisely where vulnerabilities lie.

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This was followed by Professor David Bailey discussing the potential impact of a “no deal” scenario on the automotive industry. This drew heavily on work done by himself and others – discussing the response to previous plant closures (notably MG Rover in south Birmingham). Professor Bailey pointed out that Brexit is occurring in an environment where the supply chain is already under considerable stress due to a slowdown in the sector. In the event of a no-deal Brexit, even temporary plant closures can have a broader impact throughout this supply chain. Even if companies pay their workforce during a temporary closure, they won’t be purchasing from suppliers.

As such, in light of those “[b]ig investment decisions coming up...”, it is imperative to take measures to strengthen the broader supply chain and mitigate any negative consequences that may become apparent in the event of a ‘no-deal’ Brexit. Professor Bailey was quite blunt in his assessment: “There will be [plant] closures in the event of a no-deal Brexit”. As such, he recommends that an intelligence gathering exercise take place so that measures similar to those deployed in response to previous economic shocks can be revisited in as efficacious manner as possible.

2 types of shock were identified: in the event of a no-deal Brexit there will be a sudden shock. Even if there is a deal, however, there will be longer-term issues, particularly relating to uncertainty over the final deal. “A botched Brexit could badly affect investment”, which in turn is likely to lead to shrinkage in the sector and actions need to be put in place to mitigate these.

The West Midlands region has significant experience already in this regard, having used task-forces previously, both after the closure of MG Rover and the West Midlands Task Force used after the financial crisis in 2008/9. The latter was particularly effective as it “[f]ocussed on strategically important companies”. The result is a model that has been copied in other regions around the world that are struggling with automotive plant closures. For Bailey, key lessons are to “[h]ave something ready-to-go” and “more regional flexibility” over spending than hitherto.

After lunch, Matthew Grigor of Associated British Ports, discussed preparations being made for a no-deal Brexit alongside those for after any withdrawal agreement, in the event of the backstop applying. Particular concern centred around any increase in phytosanitary checks, although it was suggested that the British government could ameliorate these (certainly for products coming into the country) by accepting EU regulations as sufficient to meet UK standards.

Sydney Nash from the SMMT followed this up, discussing the automotive industry's "asks" from government post-Brexit. The automotive sector has made intensive use of the Single Market and EU Customs Union. Passenger vehicles have an average of 40,000 components, and the sector is heavily integrated across the EU. The Withdrawal Agreement works to reduce uncertainty: both in terms of the transition period and in terms of technical issues (e.g. the status of goods already in transit or on the market at the point of withdrawal).

Nevertheless, there is considerable uncertainty, particularly over whether the proposed Withdrawal Agreement can get through parliament. As such, the sector is preparing for a no-deal Brexit whilst hoping to avoid it. Not a UK sector but a truly European one. £35m in components delivered JIT from EU every day.

The penultimate speaker was former MEP Malcolm Harbour CBE. The example of Nissan was cited, where then-Prime Minister Margaret Thatcher offered incentives to locate in the UK (acting within EU state aid rules). This was the first major investment by a Japanese car manufacturer in the EU Single Market and Nissan's Sunderland plant is now one of (if not the) most productive plant in Europe. As Nissan developed, they set up their own industrial relations system to bring new, more efficient manufacturing to the automotive sector in UK.

Lean production has spread across manufacturing but the automotive sector was a pioneer and the Single Market has been hugely important to this development. Raising competitiveness aided all in industry, showing that the UK was receptive to new working practices etc. This in turn was one of the factors that attracted Honda & Toyota to set up plants in the UK. As such, the importance of the automotive sector to the UK's wider industrial strategy was emphasised.

Going forward, discussion centred on the UK's ability to influence future European regulation. Whilst there is scope for "engagement" in decision-making and strategy, this remains a long way from having a seat at the table. Harbour suggested that the UK might have a seat in various working groups and engage in a similar manner to Norway & Switzerland. He pointed out that the EU Parliament is relatively open compared to many of its national counterparts and that, counter to public belief the EU Commission is not all-powerful.

Beverley Nielsen of Birmingham City University was the final speaker. She discussed distributed value-chains and the difficulty of managing these, particularly in light of Brexit. Many smaller businesses exist in export supply chains even if they don't export themselves, and the wider automotive sector is a great example of this. On a more parochial level, the automotive sector is massively important for FDI in the West Midlands and the point was reiterated that many companies that she has surveyed are holding off investment in light of the uncertain environment.

Professor De Ruyter closed the event, which has provided an opportunity to showcase some of the work done by the Centre and gave considerable food for thought to all participants and attendees.

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3. Glick, R. and A.K. Rose, *Currency unions and trade: A post-EMU reassessment*. European Economic Review, 2016. **87**: p. 78-91.
4. Fidrmuc, J. and J. Fidrmuc, *Disintegration and Trade*. Review of International Economics, 2003. **11**(5): p. 811-829.
5. De Sousa, J. and O. Lamotte, *Does political disintegration lead to trade disintegration? Evidence from transition countries*<sup>1</sup>. Economics of Transition, 2007. **15**(4): p. 825-843.

6. Baier, S.L. and J.H. Bergstrand, *Do free trade agreements actually increase members' international trade?* Journal of International Economics, 2007. **71**(1): p. 72-95.