Solihull shut down: Brexit, diesels, new testing regime and now China uncertainty take their toll

By Professor David Bailey, Aston Business School and the Centre for Brexit Studies

News that Jaguar Land Rover will shut its Solihull plant for two weeks is a sign of the pressure being faced by the UK's leading car producer.

The two week shut down from 22nd October will affect production of the firm's most profitable cars, including the Range Rover, Range Rover Sport, and Range Rover Velar and the Jaguar F-Pace.

It comes just a few weeks after the firm announced that its Castle Bromwich plant would go onto a 3 day week.

The move will be felt keenly in a supply chain already being affected negatively by lower production volumes.

The move will affect around 10,000 workers at the Solihull plant, or almost a quarter of its workforce. JLR said that it took the decision after reporting a 46% fall in September sales in China.

The firm had highlighted the situation in China as a key driver in its £264m loss in the three months to the end of June, with the firm having to offer higher incentives to buyers delaying car purchases ahead of a big cut in import duties by the Chinese government.

The firm's Chief Commercial Officer, Felix Bräutigam, stated: "Customer demand in China in particular has struggled to recover following changes in import tariffs in July and intensifying competition on price, while ongoing global negotiations on potential trade agreements have dampened purchase considerations."

Quite why sales haven't bounced back for JLR isn't at all clear – Audi meanwhile has been chalking up sales records in China, with sales *up* 13% in September. Is it JLR's product mix? Is it the dealership network? It's not at all clear. JLR itself said that it still expects lower tariffs on China's imports of UK made goods to be beneficial over the full year.

A JLR spokesperson said that "as part of the company's continued strategy for profitable growth, Jaguar Land Rover is focused on achieving operational efficiencies and will align supply to reflect fluctuating demand globally as required… Customer orders in the system will not be impacted and employees affected will be paid for the duration of the shutdown."

The slump in Chinese sales, plus a 7% drop in sales in North America (which had shown signs of softening earlier in the year), dragged overall JLR sales for September down by 12% to 57,114 cars.

My own back-of-an-envelope calculations suggest that the two week shut down could see 14-15,000 fewer vehicles being made, indicating that JLR must have built up considerable stock levels as demand slackened. These are models with big premiums so expect a hit of over £600m on the firm's revenues for the year, and as much as £100m on the bottom line.

JLR sales had held up reasonably well in the UK in September (down just 1%) and Europe (down 5%) despite big overall falls in both markets (down 21% in the UK and 31% in Germany for example), in large part linked to the introduction of a new real world testing regime, reduced demand for diesels, and in the UK's case, Brexit uncertainty.

JLR's CEO Ralf Speth had previously stressed uncertainty over Brexit and confusion over government policy on diesel engines as big factors in job losses at Solihull and the move to a three-day week at Castle Bromwich.

Most recently he warned that tens of thousands of jobs would be at risk in the event of a no deal on Brexit, with latter potentially costing the firm £1.2bn.

Speaking in Birmingham recently, Speth said "Currently, I do not even know if any of our manufacturing facilities in the UK will be able to function on March 30. Bluntly, we will not be able to build cars if the motorway to and from Dover becomes a car park, where the vehicle carrying parts is stationary."

The firm also said it would have to reconsider £80bn of UK investment over five years in the event of a messy, no-deal Brexit as access to the single market would be hindered and the flow of car part imports disrupted

In the wake of the Solihull news, Unite the Union slammed a 'triple whammy' of government incompetence over Brexit, diesels and half-hearted support for electric vehicles. On the latter, rumours are circulating that the Chancellor, Philip Hammond, might scrap or scale back subsidies of purchases of electric cars owing to austerity.

That's despite the urgency of the need to reduce carbon emissions, and Prime Minister May's claim last week in Birmingham that austerity was over.

Scrapping subsidies , plus the end of UK electric car sales counting towards European emissions targets, could effectively kill off a fledging electric car market in the UK even before it gets properly charged up.

Meanwhile, JLR have yet to say where it will assemble a new range of electric cars.

A big worry here is that the industry is about to transform itself away from internal combustion engine (ICE) technology to Autonomous, Connected Electric (ACE) cars over the next decade, and this investment could be lost from the UK in the event of a hard Brexit.

The firm recently said it would move Discovery production to Slovakia. I'd expected to hear what new models would come to Solihull in its wake but no news has been forthcoming.

Nor have we heard what new models will go into Castle Bromwich, or whether a mooted battery production facility will go ahead in the region.

The fear is that UK investment is stalling at the firm. But, as Speth noted a few weeks ago, "at the end of the day we're in a cycle plan that means I have to make a decision. I can't just wait, wait, wait, wait."

Notwithstanding the uncertainty in China, the UK government needs to pull its finger out to end uncertainty here – notably on Brexit and policy on diesels – and in better supporting the take up of electric cars.

Otherwise the UK risks losing a wave of investment, and with it, a raft of new technologies.

This blog originally appeared in The Birmingham Post, here.

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