Back to the future: State ownership for JLR?

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As the UK economy is slowly released from its lockdown, the free-market-oriented Conservative government is facing up to having to a change in strategy, involving a degree of state involvement or direction across huge swathes of the economy; this would be an anathema to many on the right of UK politics.

After years of austerity, the government has injected substantial sums into the economy, via furlough schemes, grants and loans; now it is reportedly looking at investing directly in businesses, whether by loans to companies to which the banks have refused loans or by taking a stake in the companies concerned.

According to the Financial Times, the Treasury has set up Project Birch to examine ways the government might help companies which, should they fail, would cause “disproportionate harm to the economy”.

Unsurprisingly, Jaguar Land Rover (JLR) is reported to be at the forefront of this changing landscape, employing around 40,000 in the UK and many more in the supply chain reliant on JLR business. Press reports suggest that sums of £1bn or may be as much as £2bn are under discussion. Whether that would be enough if the company is burning through £1bn of cash per month, even with many employees on furlough, remains to be seen.

At the time of writing, no definite decisions have been made but I would expect JLR to receive some form of government assistance in the coming weeks; the government can ill-afford the risk of the company failing, with the knock-on consequences this would entail for the West Midlands and Merseyside especially, as well as the wider UK supply chain. Moreover, JLR failing would undermine the government’s industrial strategy, especially the wish to see the UK play a leading role in the switch to electric vehicles.

However, even if the government does provide JLR within a financial lifeline, even with strings of some form attached, a broader question need addressing: beyond helping companies such as JLR survive, will such moves result in far greater government day-to-day involvement with individual companies and sectors?

The French government has indicated that state aid to Renault will be contingent on manufacturing remining in or returning to France (something which could well have an impact on Nissan's operations in Sunderland); and in Germany, the tier 1 supplier Benteler has been told that state aid may not be forthcoming because it is now registered as an Austrian, ie non-domestic, company.

So, what conditions might the UK government seek to impose on JLR – or others – in return for a loan or capital injection via shares? Will JLR have to cut back on investment plans in Slovakia or repatriate production from Austria? Will the government direct JLR to increase UK sourcing? Or instruct public sector bodies, the police, local councils and the like, to buy UK-made JLR vehicles?

State involvement in UK companies may be needed for them to survive the economic fall-out of COVID-19; but for this to be effective and worthwhile, there needs to be more to it than simply injecting money into struggling operations.

Using such investment to support related areas of the economy will be essential, whether by influencing JLR's component sourcing, or its manufacturing footprint, or by directing government bodies to buy UK vehicles.

But will the government want to become involved in helping to run private sector companies and how will a 21st century version of such intervention work in practice? Watch this space.