

What would no deal Brexit mean for the UK automotive industry?

Theresa May has made much of her mantra “no deal is better than a bad deal” but paid little attention to what this would actually mean for the UK. This briefing aims to show the implications of ‘no deal’ Brexit*, or Extreme Brexit, for the car industry. It looks at our current terms with the European Union (EU) and what a no deal Brexit could mean for the industry.

- The UK automotive industry relies on the frictionless and tariff-free European Single Market and Customs Union to operate.
- The industry accounts for 12% of the total UK export of goods and employs 814,000 people.¹
- In the event of no deal, tariffs could increase the cost of imported cars by £1,500 on average.²
- The industry is already feeling the Brexit effect. Investment in Britain’s automotive industry has fallen by 75% in two years.³
- Ford is considering ceasing operations in the UK. This places 13,000 jobs at risk across the UK, 2,100 of which are in Bridgend making Ford one of the biggest employers in the area.⁴
- The iconic British car manufacturer, Aston Martin, has announced that if the government fails to secure a deal it may have to stop producing cars in the UK, putting 3,000 jobs at risk globally.⁵

What is the importance of the automotive industry to the UK economy?

- Annually it generates a **£71.6 billion turnover** and adds **£18.9 billion to the UK economy**⁶
- **1.72 million cars produced** in the UK in 2016, record high since 1999⁷
- 80% of cars produced in the UK are exported, **50% of which are exported to the EU**⁸
- Employs **169,000 people directly** and **814,000 in the broader automotive sector**.⁹

How does it currently work?

The automotive industry is a prime example of the strong interdependent trade relationship between the UK and the EU, facilitated by the European Single Market and Customs Union. Production and distribution costs are slashed by no tariffs, no checks, no customs and frictionless borders. Additionally, within the EU, the UK influences EU regulatory policy, allowing the UK automotive industry to help shape the policies that govern them.

Freedom of movement of goods, people and services is critical, allowing not only cars and parts to be imported and exported for free but also for the hiring of the best of the best from across Europe.

Implications for ‘no deal’ Brexit

Leaving the EU without a deal would have a devastating impact on the UK car industry. Car manufacturers are very much aware of it, with 80% of big, medium and small sized car manufacturers wanting to stay in the EU, and only 10% backing leave.¹⁰ No deal would mean the end of free trade between the UK and the EU and falling back onto the unfavourable World Trade Organisation (WTO) rules. Under these rules Britain would have no preferential access to trade with the EU, with countries like Pakistan, Rwanda and Yemen trading on better terms with the EU than the UK.¹¹ WTO rules would introduce tariffs, customs charges, friction-filled borders and remove our integrated global supply system. All of which would hit the car industry hard. The automotive industry relies on exporting goods for sale and importing parts for manufacturing, which often pass through several countries before they get to the UK. Under WTO rules, a customary 10% tariff would apply to all our car exports and a 4% tariff on car parts.¹² With the average car being made up of 30,000 different parts and 41% of parts being imported, a 4% tariff would cause the cost of production to rise quickly.¹³ Analysis conducted by Society of Motor Manufacturers and Traders (SMMT) suggests tariffs on cars alone could add at least £2.7 billion annually to imports and £1.8 billion to exports.¹⁴

No deal would also hamper the UK’s ability to trade cars globally since the EU negotiates all Free Trade Agreements (FTA) for the EU28 collectively. By virtue of its EU membership, the UK benefits from 68 FTAs which on exit day would no longer apply.

*By no deal, Best for Britain means both a *complete* no deal - the UK and the EU failing to reach any agreement - as well as a *virtual* no deal - a few piecemeal agreements reached in some key areas but no overall deal. We acknowledge that ‘no deal’ is a worst case scenario. It is currently being presented by the government alongside ‘soft Brexit’, and ‘hard Brexit’ as a credible path for the UK.

The Vehicle Certification Agency (VCA)'s approval, allowing UK-produced cars to be sold across the EU, would also no longer be valid.¹⁵ Currently, all cars produced in the UK are tested and certified by the VCA.

Finally, leaving the EU without a deal, or *crashing out*, would also end freedom of movement between the UK and the EU. This would prevent the automotive industry from retaining their competitive hiring practices. With freedom of movement, UK car companies can give equal opportunities to skilled workers from 28 different countries. Currently, 10% of UK automotive industry employees are from the EU27. The end of freedom of movement between the UK and the EU would cause a skills gap crisis for the sector. This is already being seen with 5,000 jobs presently vacant.¹⁶

Effects already being felt

Brexit pound depreciation and the knock on effects of inflation have killed consumer purchasing power. The car industry is already suffering the direct effects of this with a seven month market slump and the lowest sales for four years.¹⁷ Foreign investment in the car industry has also taken a hit due to lack of confidence and uncertainty. The first six months of 2017 saw foreign investment reduced by £322 million pounds, in comparison to £1.66 billion invested in 2016 and £2.5 billion in 2015.¹⁸

Due to uncertainty, lack of progress with the negotiations and the high costs of no deal, car companies are already making contingency plans. Ford, the global automotive company, has already warned operations may have to stop in the UK if 'the UK is not competitive' after Brexit.¹⁹ Key manufacturing sites like Ford Bridgend have already seen the 2,100 workers seek strike action over investment cuts and fears about the plant's future.²⁰ Ford has taken a huge hit since the referendum, with losses of \$86 million in 2017 in comparison to profits of \$138 million in 2016, which they say are "nearly completely explained by Brexit effects."²¹ The most recent automotive company to speak out saying they may have to stop producing cars in the UK was Aston Martin, who currently manufactures all their cars in the UK. This would put 2,500 jobs at risk in the UK and harm a UK luxury car industry worth £3.6 billion.²²

No deal Brexit will significantly harm the UK's key automotive industry. Big car companies are already threatening to leave the UK and jobs are at risk. This is not best for Britain.

¹ Josh Harris, 'SMMT Response: Legislating for the UK's withdrawal from the EU - great repeal bill white paper', *SMMT*, June 2017, <https://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-response-to-Legislating-for-the-United-Kingdoms-withdrawal-from-the-European-Union.pdf> and Alan Tovey, 'Britain's luxury car industry at risk without Brexit deal', *Daily Telegraph*, 17 October 2017, <http://www.telegraph.co.uk/business/2017/10/17/britains-luxury-car-industry-risk-without-brexit-deal/>

² SMMT, 'Industry topics: Brexit', *SMMT*, <https://www.smmt.co.uk/industry-topics/brexit/>

³ Elizabeth Perlman, 'Ford's Europe president: We could leave the UK because of Brexit', *Verdict*, 7 November 2017, <https://www.verdict.co.uk/ford-europe-brexit-car-industry/>

⁴ Ford, 'Ford Careers', *Ford*, <https://www.ford.co.uk/experience-ford/careers> and Jonathan Walker, 'Car firms employing more than 16,000 say Brexit could do huge damage to their businesses', *Birmingham Mail*, 13 November 2017, <http://www.birminghammail.co.uk/news/midlands-news/car-firms-employing-more-16000-13894515> and Bridgend County Borough Council, 'Bridgend County Borough Profile - 2017', *Bridgend County Borough Council*, <http://business.bridgend.gov.uk/en/about-the-borough/bridgend-profile/>

⁵ Ned Simons, 'Aston Martin Warns It Could Have To Stop Making Cars If Brexit Talks Fail', *Huffington Post*, 14 November 2017, http://www.huffingtonpost.co.uk/entry/aston-martin-warns-it-could-have-to-stop-making-cars-if-brexit-talks-fail_uk_5a0af58e4b0bc648a0dd499?ncid=APPLENEWS00001 and Aston Martin Press office, 'employment figures', *Aston Martin*, 15 November 2017

⁶ Alan Tovey, 'Britain's luxury car industry at risk without Brexit deal', op.cit

⁷ Ibid

⁸ David Bailey, 'What does Brexit mean for the UK's automotive industry?', *The UK in a Changing EU*, 25 July 2016, <http://ukandeu.ac.uk/what-does-brexit-mean-for-the-uks-automotive-industry/>

⁹ Josh Harris, 'SMMT Response: Legislating for the UK's withdrawal from the EU - great repeal bill white paper', *SMMT*, June 2017, <https://www.smmt.co.uk/wp-content/uploads/sites/2/SMMT-response-to-Legislating-for-the-United-Kingdoms-withdrawal-from-the-European-Union.pdf> and Alan Tovey, 'Britain's luxury car industry at risk without Brexit deal', op.cit

¹⁰ David Conn, 'UK car industry facing an 'utterly demoralising' Brexit', *Guardian*, 4 August 2017, <https://www.theguardian.com/business/2017/aug/04/uk-car-industry-facing-an-utterly-demoralising-brexit>

¹¹ Andrew Grice, 'Leaked Treasury report warns of painful "economic shock" if Britain crashes out of the EU without a deal', *Independent*, 11 March 2017, <http://www.independent.co.uk/news/uk/politics/brexit-treasury-fears-leaked-document-article-50-theresa-may-eu-referendum-exclusive-a7624706.html>

¹² Will Dunn, 'After Brexit, we should just let the UK car factories close', *New Statesman*, 3 July 2017, <https://www.newstatesman.com/politics/brexit/2017/07/after-brexit-we-should-just-let-uk-car-factories-close> and Jacob Hanke and Joshua Posaner, 'Automakers: UK car industry will stall without Brexit deal', *Politico*, 17 August 2017, <https://www.politico.eu/article/interview-uk-car-industry-will-stall-if-theresa-may-walks-away-from-deal/>

¹³ Jacob Hanke and Joshua Posaner, 'Automakers: UK car industry will stall without Brexit deal', op.cit and Peter Campbell and Michael Pooler 'Brexit triggers a great car parts race for UK auto industry', *FT*, 30 July 2017, <https://www.ft.com/content/b56d0936-6ae0-11e7-bfeb-33fe0c5b7eaa>

¹⁴ SMMT, 'Industry topics: Brexit', op.cit

¹⁵ Ned Simons, 'Aston Martin Warns It Could Have To Stop Making Cars If Brexit Talks Fail' op.cit

¹⁶ SMMT, 'Industry topics: Brexit', op.cit

¹⁷ SMMT, 'Double digit decline for UK car market in October as government urged to restore confidence in new cleaner diesels', *SMMT*, 6 November 2017, <https://www.smmt.co.uk/2017/11/double-digit-decline-uk-car-market-october-government-urged-restore-confidence-new-cleaner-diesels/>

¹⁸ David Conn, 'UK car industry facing an 'utterly demoralising' Brexit', op.cit

¹⁹ Elizabeth Perlman, 'Ford's Europe president: We could leave the UK because of Brexit', op.cit

²⁰ Peter Campbell and James Pickard, 'Ford plans to cut more than 1,100 jobs at UK's Bridgend plant', *FT*, 1 March 2017, <https://www.ft.com/content/231e7c4c-fe9b-11e6-8d8e-a5e3738f9ae4>

²¹ Elizabeth Perlman, 'Ford's Europe president: We could leave the UK because of Brexit', op.cit

²² Aston Martin Press office, 'employment figures' op.cit and Alan Tovey, 'Britain's luxury car industry at risk without Brexit deal', op.cit