

Brexit Untangled

The automotive implications



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Stuart Young, Partner, Automotive

“More than any other industry, the automotive sector has come out strongly in favour of the UK remaining within the European Union. Mike Hawes, Chief Executive of the Society of Motor Manufacturers and Traders (SMMT) has commented as follows after a recent survey:

“The message from UK Automotive is clear – being in Europe is vital for the future of this industry and to secure jobs, investment and growth. UK Automotive is thriving, with record car exports, new registrations and the highest manufacturing levels for a decade. Our industry supports 800,000 jobs across the UK and contributes more than £15 billion to the UK economy – our members have clearly stated that pulling out of Europe could jeopardise this.”

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First and certainly most important among the factors affecting the views of the automotive industry is the extent to which vehicles are exported to the EU. Over 80% of vehicles manufactured in the UK are exported and around 60% of those exports head into the EU. Without membership of the EU, trade tariffs could be imposed on vehicles of up to 10%. Imposing such tariffs would make vehicles less competitive when compared with those manufactured within the EU. The most obvious direct result of the tariff would be to depress sales in the affected vehicles but, given the next factor, the impact may be more brutal and quicker than would normally be the case with price pressure.

The second factor at play is the high percentage of foreign ownership in automotive manufacturing in the UK. That applies throughout the supply chain including vehicle manufacturers and significant Tier 1 suppliers. It's an important factor, not because overseas owners have a political agenda in relation to the EU, but because the choice of location of manufacturing plants is subject to rigorous business analysis and is without sentiment. Many of the attractions of the UK would continue regardless of Brexit, particularly a highly-skilled and adaptable workforce, but uncertainty over our limited access to EU markets may cause manufacturers to locate plants in other countries where there is such access. Where such decisions are so finely balanced, the existence of tariffs might make a

real difference. This might be more brutal than expected. It may look like hard work to relocate manufacturing plants given the simple physical restraints and the need to find reliable suppliers and a suitable workforce. However, there is over-capacity at plants that already exist inside the EU and they would find it much easier to increase production. If that happened we may see the supplier base being hollowed out and then a fairly rapid decline in the overall UK automotive manufacturing infrastructure.

Thirdly, the conventional industry view is that membership of the EU is important in order to be part of the discussions on setting standards. Without a seat at the table the UK automotive industry will not be able to shape the regulatory landscape. It's not, in our view, a fatal flaw for the industry but it's clear that Brexit would not enable us to sell cars into the EU that satisfied UK standards but did not satisfy EU standards. In this sense Brexit would deliver no advantages and may lead to some downside. Those in favour of Brexit would say, however, that an ability to set our own standards may lead to a more dynamic industry which is more sensitive to the UK market and better reflects our wishes.

Overall, it seems the automotive industry's worry of a less outward-looking UK and a period of uncertainty while trade deals are negotiated has caused it to take a collective deep breath."

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