Brexit and The Car Industry

by Adrian Philipps

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Doubtless you long ago joined the present writer in switching off your mind to the deluge of imaginary and terrifying statistics hosed on to you by both camps in the Brexit debate. You are right. Anyone who has ever constructed an economic or financial model will acknowledge, it can be made to say whatever the author wants. All you need to do is build in the right sensitivity to variables (say, how house purchases relate to perceived job security), enter an appropriately extreme figure for the variable concerned and Bob's your uncle.

Business leaders have also been trotted out by both sides and regaled us with their own take on the story. Deep insecurity and a sharp degradation in trade terms on one side and freedom from politico/bureaucratic constraint on the other. Closer examination usually reveals private axes being ground. What can anyone believe with confidence? There is one industry which has been utterly transformed since Britain joined the EEC (as it was) and whose transformation has been shaped by how Britain relates to the EU. Whatever has been decided will affect it again.

In absolute terms Britain has roughly held its ground as a maker of cars since 1980, producing a little more than a million and half vehicles in 2015. This is far behind the leading maker, Germany, whose output has risen by more than half to six million but a lot better than the other two large producers, France and Italy, each down by more than one third. It is a large slice of the national economy and, especially in the UK, critical for regional economies.

Here we come to the unique features of the British car industry: it is almost entirely new and it is in foreign hands. The vast bulk of the cars made in Britain are made in completely new factories and by companies who have only established themselves in Britain since EEC membership. By contrast the identity of German, French and Italian producers and the location of their factories is almost unchanged although the German had have to build a few more new factories to cope with the extra volume. Production in both France and Italy is dominated by locally owned firms, much as in the 1950s.

One of the key parts of the upcoming negotiations on the terms of Brexit will be the tariff regime for cars. Here we can expect a fair amount of disharmony amongst the EU countries. In one corner will be the German car industry – assemblers and component makers – who export a lot to the UK. In the other will, probably, be France and Italy, whose assemblers export relatively little to the UK, but have to compete ferociously with UK based assemblers in their home markets. French and Italian parts makers would be in the German camp, but the assemblers have more political clout. Most major French industrial companies signed an open letter supporting "remain"; the glaring exceptions were Peugeot and Renault. By contrast Britain's pre-membership car industry has almost disappeared. The real decisions about what happens to Britain's car industry are being made and will still be made by people who have not featured in any of the propaganda. To them Britain is merely one of many actual and potential locations with pros and cons and they will make their plans accordingly.

They were drawn to make cars in Britain by a combination of factors. Unions are weak or non-existent, the state is in favour of labour flexibility and rates of pay are relatively low. But this is not decisive; if it were Germany would not have done as well as it has. What counted was that British made cars had untrammelled access to the EU market. It was the trump card to play against France's ferociously protectionist national industry operating through an entirely supportive government. If you were a global car-maker seeking to build a presence in the EU from scratch it was an easy choice.

Today's British car industry reflects these choices. Three quarters of cars made are exported and three fifths of these go to the EU. So half of British car output depends directly on access to the EU. If Britain leaves things will not change overnight but they will change. They key timing factor is the introduction of new models; a given model will stay in production about seven years and all the key choices about where to spend money on designing it and making it are made well in advance. It is not an industry with much flexibility.

Now that Britain is leaving , these choices will mostly go against British sites. Nothing in the leave choice makes Britain a more attractive place to make cars. You will not notice the damage overnight. Britain's only quoted car component maker, GKN, is fully global and it will barely be affected. The impact will be first and foremost regional. If you had a pub in Oxford, Sunderland, Derby or Swindon (BMW, Nissan, Toyota and Honda respectively) you'd be looking for the exit. The fact that the good people of Sunderland voted to leave in line with national percentages is a remarkable case of turkeys voting for Christmas. Give it two or three years for the first profit warnings attributed to dwindling employment around these sites. This won't be positive for national figures either.

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