Brexit uncertainty

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Last month, we looked at one facet of the uncertain Brexit picture – the UK market forecast impact – if the UK were to crash out of the EU without an agreement in place, in a so-called no-deal Brexit.

For the industry itself, reduced market volume is unlikely to be the most significant part of such a disorderly process.

Over the last several weeks, we have seen more reported warnings from OEMs on the potential impact to UK vehicle manufacturing of a no-deal scenario. Reports that Nissan might be looking to trim production at its Sunderland plant were accompanied by an ominous statement from BMW board member, Peter Schwarzenbauer, at the Geneva Motor Show in which he outlined that moving engine, and even vehicle, production out of the UK may be necessary. PSA (Vauxhall/Opel) has also issued ambiguous warnings. Meanwhile, Honda has, of course, already announced the closure of its Swindon plant in 2021, but avoided pointing to Brexit as the main reason. The pattern of negative announcements, however, is now too pronounced for this not to be the case. It would appear that all volume UK car production is at some form of risk from a variety of factors in a way that is not the case in other European countries – with Brexit being the clear differentiator.

A closer look at the destinations of Light Vehicles produced in the UK highlights one clear risk related to trade barriers for finished vehicles: that the EU is a large destination market for output from a number of plants.

But the wider issue of competitiveness, in the context of weakened supply lines and trade friction, is extremely important. Investment in the UK auto industry has already collapsed since 2016 as Brexit uncertainty has caused hold-off. If producing vehicles in the UK to serve EU, and potentially other, markets is to become less efficient, and possibly permanently loss making, then the decision to shift production to more stable locations within the EU Single Market, or where access via FTAs is in place, seems only logical.

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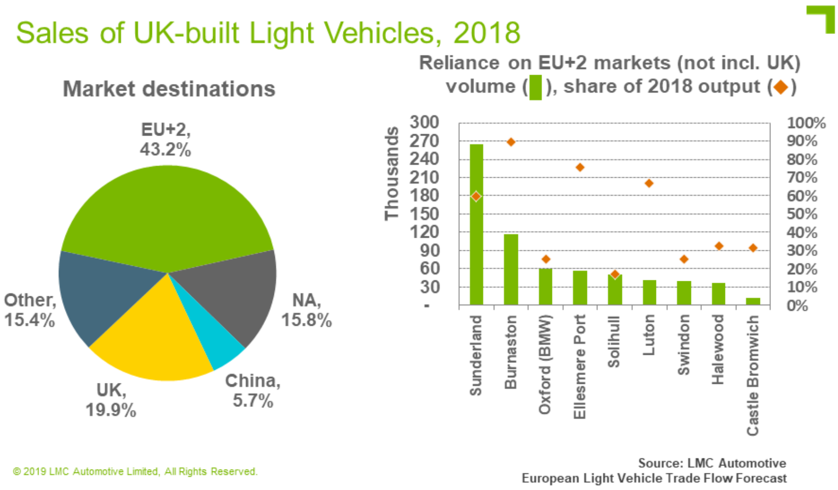
Those plants with high EU exposure – Sunderland, Ellesmere Port, Burnaston and Luton – face the biggest problems. Not only will manufacturing be difficult as a result of increased trade friction, but tariffs may be applied to a substantial proportion of vehicles produced as they are distributed to EU markets. The comments made by BMW highlight that EU markets are, even so, not the main issue: 75% of the Oxford plant’s Mini output is destined for non-EU markets and yet the company is seriously questioning its ability to operate from a more isolated UK.

One thing is becoming increasingly clear: the harder the Brexit, the bigger the damage to the UK vehicle industry. It may not happen all at once – relocations take time and will likely be subject to model cycle changeovers as key decision points. And assuming that a truly substantial proportion of production would ultimately leave the UK seems extreme. But commercial logic seems to point in this direction.



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