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# Supporting Industry Post-Brexit: Supply chains and the automotive industry

Briefing note: May 2017

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The automotive industry performed at record levels over the last year. In 2016, 1.7 million cars were built in the UK, with 1.3 million of these exported,[1] and in March 2017 the industry saw 562,337 new cars registered in the UK, the highest ever levels of exports and registrations.[2]

As well as being under pressure to develop an industrial policy which will support growth in an industry with 169,000 people employed in manufacturing vehicles and which supports around 814,000 jobs across the UK, the government will need to ensure policies are in place to help the automotive industry adapt in light of the UK's vote to leave the EU.[3] On leaving the single market and customs union, issues such as rules of origin, customs delays, tariffs and regulatory diversion all have the potential to harm automotive production, which is dependent on a global supply chain. These are concerns that will be shared by all exporting manufacturing industries and those which are part of, or rely on, supply chains that extend into the rest of the EU.

This report examines what lessons can be learnt from the automotive industry as a current manufacturing success story with a growing domestic supply chain, high productivity, and strong growth, and how government could use its new industrial strategy to support manufacturing as the UK prepares to leave the European Union.

The report reviews how the automotive industry has reacted to the UK's vote to leave the European Union, and the government's decision not to seek single market membership or retain the Common External Tariff. It also identifies the primary challenges and opportunities for the industry post-Brexit.

In light of these challenges, we review the support the automotive industry has received and find that UK policies in recent years have been highly successful, encouraging strong growth in domestic and export markets. This has been driven by investment that has resulted in the growth of domestic supply chains, supporting productive jobs and a creating a more stable and sustainable environment for a vital UK industry. The creation of the Automotive Council

[1] Lloyds Bank, 'Automotive Research Report 2017', http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/lloyds-bank/2017/170301-lloydsbank-automotivereport.pdf (accessed 29 March 2017)
[2] SMMT, 'Records tumble as March UK market hits all-time high', https://www.smmt.co.uk/2017/04/records-tumble-as-march-uk-new-car-market-hits-all-time-high/ (accessed 29 March 2017)
[3] BEIS Select Committee, Written evidence from the Society of Motor Manufacturers and Traders, http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Business,%20Energy%20and%20Industrial%20Strategy/Industrial%20strategy/written/39019.html (accessed 24 March 2017)

in particular has allowed for continuous dialogue between industry and government and encouraged productive business-led investments.

As part of the effort to build a new industrial strategy it is essential the government listens to calls for investment in the UK automotive supply chain. We recommend that the government invests across the UK's manufacturing industries either through the expansion of the Advanced Manufacturing Supply Chain Initiative or through new substantial supply chain initiatives that provide support for all manufacturing industries across all regions of the UK. Such investment should be accompanied by a more prominent role for UK industry-government bodies which should aim to replicate the success of the Automotive Council, in areas such as chemicals, pharmaceuticals, aerospace, defence, and power generation, by encouraging targeted and productive investment. Such a policy should encourage the Department for Business, Energy and Industrial Strategy to engage continually with industry bodies and encourage business-led investment by government in UK manufacturing.

The example of the automotive sector shows that such investment can have a broad positive impact on supply chains and could help to secure and grow the UK's manufacturing base.

## The automotive industry in the UK

The automotive sector is a significant manufacturing industry, employing 169,000 people and supporting 814,000 jobs across the wider UK economy.[4] Exports of road vehicles and related products accounted for 11.5 per cent of UK goods exports, equating to £32 billion in 2015. Imports to the UK of Road Vehicles and related products accounted for 12.7 per cent of UK total goods imports, equating to £50 billion in 2015.[5] This £18 billion deficit in trade is partly due to the UK automotive industry's reliance on imports for manufacturing cars, with over half the content of British built cars being imported into the UK. The SMMT estimates that, since 2011, UK content of British built cars has increased from 36 per cent to around 41 per cent.[6] Despite this increase, in part due to government support aimed directly at boosting UK supply chains, there is still unmet potential for domestic suppliers to expand their contribution to the supply chain and reduce the industry's reliance on imported components. The SMMT calculates that as much as 80 per cent of components could be made in the UK. Comparisons with other nations with major automotive industries, such as Germany, suggest the UK could realistically aim to source around 60 per cent of auto components domestically.[7]

Any successful attempt to boost the domestic supply chain in the UK would almost certainly have the most positive impact on the North East, the West Midlands, and the South East, the three regions of the UK which export the most automotive goods.[8] For the North East and

[4] BEIS Select Committee, 'Written evidence from the Society of Motor Manufacturers and Traders', http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Business,%20Energy%20and%20Industrial%20Strategy/Industrial%20strategy/written/39019.html (accessed 24 March 2017)

[5] Percentages calculated from HMRC UK Regional Trade Statistics. https://www.uktradeinfo.com/Statistics/RTS (accessed 8 March 2017)

[6] SMMT, 'Supply Chain', https://www.smmt.co.uk/industry-topics/uk-automotive/supply-chain/, (accessed 9 March 2017)

[7] I. Henry, 'Long-term forecast paper for The Society of Motor Manufacturers and Traders (SMMT): The future of UK automotive manufacturing in 2025 and beyond', AutoAnalysis, October 2015, https://www.smmt.co.uk/wp-content/uploads/sites/2/AutoAnalysis-report-the-future-of-UK-automotive-manufactuing-October-2015.pdf

[8] As measured by value in 2015. HMRC UK Regional Trade Statistics, https://www.uktradeinfo.com/Statistics/RTS (accessed 8 March 2017)

the West Midlands it could provide a significant economic boost because automotive products make up 37 per cent and 50 per cent of these regions' exports, respectively.[9]

Boosting the UK's domestic supply chain could create sustainable semi-skilled and skilled manufacturing jobs in the UK and reduce the industry's reliance on international supply chains, helping balance out the UK trade deficit by reducing imports and, as highlighted later, enabling the industry to maintain tariff free access for exports if a new trade deal is agreed.

As manufacturing jobs also tend to have higher productivity, reflected in incomes with average annual earnings in the manufacturing sector of £31,489 in 2015, almost £4,000 more than the UK average and £4,500 more than for services,[10] investment in a major manufacturing supply chain could help boost the UK's stagnant productivity levels.[11]

Following the UK's vote to leave the European Union, the automotive industry, along with other major exporters of manufactured goods, may face a number of new challenges as a result of the expected departure of the UK from the EU's single market and customs union. New customs arrangements could disrupt cross border supply chains or raise their cost, and rules of origin could act as a barrier which, even with a trade agreement, could see tariffs put on UK manufactured goods.

## The impact of Brexit

Throughout the referendum campaign and since, much was made of the potential impact of Brexit on the UK's manufacturing industries, which currently make use of barrier-free trading arrangements within the EU for both importing and exporting products. Whilst UK-EU negotiations will seek to deal with such issues and prevent unnecessary barriers to commerce, concerns exist because current trading arrangements depend on EU membership and any new deal could involve some change.

As a result, a number of car manufacturers with factories based in the UK have made public comments relating to the impact of Brexit on their UK based operations. These include Nissan, BMW[12], PSA (owner of Vauxhall),[13] and Jaguar Land Rover.[14]

[9] Calculated for 2015. HMRC UK Regional Trade Statistics, https://www.uktradeinfo.com/Statistics/RTS (accessed 8 March 2017)

[10] EEF, 'UK Manufacturing 2016: The facts', https://www.eef.org.uk/campaigning/news-blogs-and-publications/blogs/2016/sep/uk-manufacturing-2016-the-facts (accessed 12 February 2017)

[11] UK productivity, as measured by both output per hour and output per worker, is barely higher than the pre-crisis 2007 peak. ONS, 'Labour productivity: Oct to Dec 2016', https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/bulletins/labourproductivity/octtodec2016 (accessed 3 March 2016)

[12] G. Ruddick, 'BMW considers making electric Mini outside UK due to Brexit worries', *The Guardian*, 27 February 2017, https://www.theguardian.com/business/2017/feb/27/bmw-electric-mini-germany-uk-brexit-germany-oxford ;P. Campbell, 'UK car industry fears effects of Brexit tariffs on supply chain', 16 October 2016, https://www.ft.com/content/c397f174-9205-11e6-a72e-b428cb934b78 (accessed 2 March 2017)

[13] S. Dean, ''Hard' Brexit would be good for Vauxhall', *The Telegraph*, 6 March 2017, http://www.telegraph.co.uk/business/2017/03/06/psa-seals-19bn-takeover-vauxhall-opel/ (accessed 6 March 2017)

[14] P. Campbell, 'Hard Brexit will leave us uncompetitive, says Jaguar Land Rover', 28 September 2016, https://www.ft.com/content/8858900c-854c-11e6-8897-2359a58ac7a5, C. Pitas, 'UK cars may never meet 'Made in Britain' threshold, says Jaguar Land Rover', 07 March 2017, https://uk.news.yahoo.com/uk-cars-may-never-meet-made-britain-threshold-134405866--finance.html (accessed 8 March 2017)

- Nissan's head of European Manufacturing, Colin Lawther, has called for the government to spend £100 million to 'repower the [UK] supply base' having told MPs on the International Trade committee that 'Nissan will not succeed in the future, with or without Brexit, unless the government does something to help us in the supply chain.'[15]

  The impact of leaving the customs union was also an area of notable concern for Nissan. Mr Lawther said that tariffs could cost the company up to £600 million and that any delays caused by customs checks could make the Sunderland plant uncompetitive as the plant only holds half a day's worth of stock at any one time, and so downtime of more than 6 minutes is a disaster. [16]

- Carlos Tavares, chairman of PSA, who purchased Vauxhall from General Motors in March 2017, said that a hard Brexit would present a 'nice opportunity to be able to source … from inside the UK.' Mr Tavares also seemed confident that the UK government 'completely understands' that the UK supply base needs to be developed. Mr Tavares made it clear that creating a strong domestic, sterling-denominated supply chain could provide a stable and competitive environment for automotive manufacturing.

- BMW, who manufacture the Mini at their Oxford plant, have raised concerns about the impact of tariffs and leaving the Single Market. There have been suggestions that production could move out of the UK in order to stay within the EU, either to Germany or the Netherlands. In a statement the company said, 'As a major investor and employer in the UK, the BMW group urges the government to take the concerns of international business into account. Not only free trade but also cross-border employment opportunities and unified, internationally applied regulations are of proven benefit to business, the economy and individuals.'

- Ralf Speth, Chief Executive of Jaguar Land Rover, raised concerns about the ability of the UK to boost its supplier base sufficiently, saying that 'Jaguar Land Rover is the biggest automotive company in the UK and the only one which really designs, engineers and also produces in the UK. The volume is still too small to really attract a huge Tier 1 supplier.' The problem being highlighted is the fact that only 41 per cent of components used in manufacturing UK cars are sourced from within the UK, and some trade deals only provide tariff free access for vehicles with domestically sourced content of at least 50 per cent or more.

Most of the concerns raised address issues arising from the potential impact of tariffs and rules of origin on the automotive industry's supply chain, which is highly international, with parts crossing between the UK and the rest of the EU several times.[17]

[15] P. Campbell, 'Nissan asks for £110m supplier fund to safeguard UK car industry', *FT*, 28 February 2017, https://www.ft.com/content/9bd3e876-fddc-11e6-96f8-3700c5664d30; G. Tredway, 'Nissan outlines UK supply chain and Brexit concerns', *Automotive Logistics*, 1 March 2017, http://automotivelogistics.media/news/nissans-lawther-warns-parliamentary-committee-supply-chain-concerns (accessed 4 March 2017)
[16] P. Campbell, 'Nissan asks for £110m supplier fund to safeguard UK car industry', *FT*, 28 February 2017, https://www.ft.com/content/9bd3e876-fddc-11e6-96f8-3700c5664d30 (accessed 2 March 2017)
[17] G. Ruddick & P. Oltermann, 'A Mini part's incredible journey shows how Brexit will hit the UK car industry', *The Guardian*, 3 March 2017, https://www.theguardian.com/business/2017/mar/03/brexit-uk-car-industry-mini-britain-eu (accessed 8 March 2017)

Estimates show that leaving without a tariff free arrangement that covered 'vehicles and parts thereof' could see tariffs of £1.3 billion applied to UK automotive related exports by the EU, and of £3.9 billion applied by the UK on similar imports from the EU.[18] A further report looking at the cost of manufacturing a car in the UK found that prices could rise by over £2,000 if the UK failed to reach a free trade agreement with the EU.[19] But, even with an agreement on tariffs, issues remain around the potential cost of having to apply different regulations to UK and EU bound vehicles and the impact of having to meet rules of origin requirements, and prove such requirements have been met, in order to benefit from negotiated tariff free trade.

The recently concluded EU-Canada Comprehensive Economic and Trade Agreement (CETA) and the EU-South Korea FTA are accompanied by rules of origin containing a requirement that at least 55 per cent of vehicles' contents will have to be sourced domestically to qualify for tariff free trade under the agreements (though this requirement is being phased in).[20] The impact on UK trade with the EU may not be huge, as around 41 per cent of the content of vehicles manufactured in the UK is currently sourced from UK manufacturers, meaning it is likely that more than 55 per cent can be sourced domestically from the UK or EU, thought there could be a notable impact on parts further down the supply chain. On top of this there will be an impact on UK trade outside the EU, as the government will have to renegotiate current agreements, and also plans to negotiate a number of new deals on leaving the EU. It is unlikely that the UK would achieve more favourable rules of origin, and UK car manufacturers exporting outside the EU may struggle to ensure enough content is domestically sourced from either the UK or the partner country concerned. If the automotive sector hopes to benefit from future trade deals it is likely that the UK will have to boost the domestic content of cars manufactured here.

The issues that the UK might face because of the Brexit vote and the response from industry all highlight the need for the UK to develop its automotive supply chain, in order to boost the share of domestically sourced components in British-made vehicles. As the government prepares its industrial strategy it should take into account these concerns and risks, and adopt policies that will support UK domestic supply chains. This should be done to ensure that UK manufacturing remains competitive and that the UK can limit the impact that 'rules of origin' requirements may have on British exporters for any trade deals agreed post-Brexit.

Boosting the domestic supply chain, and increasing the proportion of UK manufactured vehicles made from domestically sourced parts, will reduce the costs from current cross-border supply chains and help ensure that cars manufactured in the UK will be able to benefit from any trade deals negotiated with new partners outside the European Union.

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[18] J. Protts, 'Potential post-Brexit tariff costs for EU-UK trade', Civitas, 23 October 2016 http://www.civitas.org.uk/content/files/potentialpostbrexittariffcostsforeuuktrade.pdf

[19] G. Ruddick, 'Hard Brexit 'could increase cost of making a car by £2,400'', *The Guardian, 20 March 2017,* https://www.theguardian.com/business/2017/mar/20/hard-brexit-cost-car-uk-wto-rules

[20] A. Parkin, 'A closer look at CETA, part 2: automotive sector to feel CETA's impact', Livingston International http://www.livingstonintl.com/our-experts-speak/closer-look-ceta-part-2-automotive-sector-feel-cetas-impact/
'The EU-Korea Free Trade Agreement in practice', p. 6,
and 'The EU-Korea Free Trade Agreement: rules of origin', European External Action Service, http://eeas.europa.eu/archives/delegations/south_korea/documents/eu_south_korea/presenter_1-2_rules_of_origin__en.pdf

## UK automotive industrial policy

Under previous UK governments, British industries have received support under a range of 'industrial policies.' The automotive industry has received a fair amount of that support, and has seen both ineffective and highly successful intervention and investment.

For the first half of the 20th century the UK was the world's leading manufacturer of cars. However, due to lower investment in the industry and poorer industrial relations than in the UK's main competitor countries, the U.S., Germany and France, the UK fell behind in the 1960s.[21] In response to the UK's industrial decline Harold Wilson's Labour government brought in a new industrial strategy which saw the creation of 'national champions'.

For the automotive sector, the government's Industrial Reorganisation Committee encouraged the creation of the British Leyland Motor Corporation, which was formed by the merger of the Leyland Motor Corporation and British Motor Holdings in 1968. It was hoped the intervention would see the loss making British Motor revived by Leyland, under the guidance of Lord Stokes, previously the head of Leyland Motors. However, British Leyland failed to rationalise and its inability to compete saw its share of the UK automotive market fall from above 40 per cent to 32 per cent by 1973.

Problems persisted and by 1974, having failed to secure any backing from British banks, British Leyland was forced to seek assistance from the government. In 1975, in line with the recommendations of the Ryder Report, Wilson's new Labour government, at the cost of £2.4 billion, nationalised British Leyland by creating the new holding company British Leyland Limited, of which the government was the majority shareholder, to purchase British Leyland Motor Corporation.

The creation of British Leyland and the idea of 'national champions' and 'picking winners' have become commonly associated with 'industrial strategy' and their failures are often used to argue against the idea that the government should pursue an active industrial strategy.

However, the criticism of the British Leyland approach should not take away from the successful policies that have followed. In 1977, headed by Michael Edwards, British Leyland started rationalising, centralising management, laying-off staff and modernising plant. The change in attitude was accompanied by policy shifts, with support for the industry since the late 1970s focusing primarily on creating and supporting competeviness.

Between 1979 and 1988 British Leyland received £2.9 billion from the government. Unlike previous state aid, these funds were dependent on further rationalisation. These actions saw some success and British Leyland was gradually broken up and privatised as markets saw the UK car industry becoming more competitive. Though the survival of the British Leyland brands, including Land Rover, Jaguar and Mini, was ensured by nationalisation, it was an approach that valued a competitive industry which ensured their enduring success.

This approach also saw the UK government encourage foreign investment as a means of encouraging a more globally competitive industry. Thatcher successfully encouraged Nissan to invest in Sunderland in 1984 by agreeing to sell land for the new site at a discounted price, effectively subsidising the investment. This intervention introduced highly efficient

[21] K. Pourvand, 'Picking Winners', Civitas, October 2013, http://www.civitas.org.uk/pdf/PickingWinners.pdf

automotive manufacturing to the UK and encouraged future investment from overseas, effectively restoring confidence in the UK's ability to manufacture cars at a competitive level.

### The success of recent policy

In 2009, following the financial crisis, vehicle production in the UK fell by over 30 per cent, but since then a number of policies have been successful in returning production to pre-crisis levels. The support offered by the UK government since the crisis has been less direct than previous policies, and focused on boosting demand and encouraging investment aimed at expanding the UK supply chain and making the UK more competitive.

The Automotive Assistance Programme introduced in 2009 offered guarantees to unlock loans of up to £1.3 billion from the European Investment Bank, and a further £1 billion of lending or loans to cover other worthwhile investments. Only one loan guarantee was provided under the scheme, but it marked a shift from providing equity finance or payments to firms to providing indirect support to unlock private funding. The programme ended in December 2010, primarily due to lack of demand.[22]

In the 2009 April budget the government set up a vehicle scrappage scheme, under which old vehicles could be traded in for a £2000 discount on new purchases, with half of the discount being covered by the government. The scheme was stopped in March 2010 as, though there were potential short term benefits predicted at around £116 million, the industry was deemed to have broadly recovered and the long-run loss was predicted to be around £18 million.[23]

The short-term boost may have helped the industry in the immediate aftermath of the crisis by ensuring demand for new vehicles, but as far as policy goes there was no long-term benefit.

The Automotive Council was established in December 2009 with the aims of 'creating a transformed business environment', providing a 'more compelling investment proposition' for the UK automotive and related industry, developing a stronger and more competitive automotive supply chain, and ensuring a strategic, continuous conversation between government and the industry.[24]

In a speech addressing the SMMT in 2012, the then business secretary Vince Cable explained:

> It's not intervening, trying to tell you what to do as part of a central plan but it's a mechanism to get high level conversation about how you develop the supply chains, how you develop the new technologies which are unlikely to develop spontaneously, how to develop future low carbon products, addressing the issue of skills and having a good commercial environment. So it is a good collaborative approach, it isn't a cartel, it's sensible and collaborative and that's exactly what we need to have.

[22] 'The motor industry: statistics and policy', House of Commons Library, 11 April 2017, http://researchbriefings.files.parliament.uk/documents/SN00611/SN00611.pdf

[23] 'The motor industry: statistics and policy', House of Commons Library

[24] BEIS Select Committee, 'Written evidence from the Society of Motor Manufacturers and Traders', http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Business,%20Energy%20and%20Industrial%20Strategy/Industrial%20strategy/written/39019.html (accessed 24 March 2017)

The relationship between the industry and government, and the growth of the industry over the past eight years, in particular the development of the UK supply chain, is testament to the positive outcomes of such collaboration.[25]

As a result of this relationship between the industry and government, the automotive industry was a key beneficiary of a number of UK growth policies under the coalition government, particularly the Regional Growth Fund (RGF) and the Advanced Manufacturing Supply Chain Initiative (AMSCI), as well as the one billion pound co-funded Advanced Propulsion Centre (APC), the Automotive Investment Organisation (AIO) and £30 million of targeted investment in skills.[26]

The Regional Growth Fund (RGF) was created in June 2010 with the intention of promoting the private sector in areas in England most at risk to public sector cuts by providing financial support for private enterprises to leverage additional funding and create sustainable jobs. The RGF is expected to be worth over £3.2 billion over the period 2011-12 to 2016-17. However, there will be no further round of funding.[27]

A review of rounds one to four of the RGF estimated that £2.6 billion had created or safeguarded 280,000 jobs and leveraged £14.3 billion of private investment. The automotive sector was by far the biggest recipient of these funds, receiving approximately £400 million of funding, more than three times as much as other manufacturing sectors, which in turn leveraged over £3.5 billion of investment.[28]

With AMSCI the government hoped to encourage the ‘co-location’ of supply chains and primary manufacturers, such as Nissan, JLR and BMW. The AMSCI was therefore introduced in 2011, with several rounds of funding provided to stimulate the growth of UK-based suppliers, the funds being awarded in order to help expand already operating suppliers or consortia and encourage the development of new ones. To receive funds firms have to provide evidence that the government’s support would make a notable improvement to their sector that would otherwise not be delivered by the market. The initial programme provided £25 million for projects in the aerospace or automotive supply chain based in the Local Economic Partnership regions of the Black Country, Coventry & Warwickshire, Greater Birmingham & Solihull or the Liverpool City Region, and two rounds of funding totalling up to £100 million for proposals that would support any manufacturing sector in any part of the country. A further £120 million was made available for two rounds in 2013.[29] AMSCI 2014 was then introduced as a £100 million England-wide fund. In 2016 a further £8.3 million was provided to fund smaller projects for Automotive and Aerospace supply chains in the West Midlands and Liverpool.[30]

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[25] ‘ The motor industry: statistics and policy’, House of Commons Library

[26] ‘The motor industry: statistics and policy’, House of Commons Library

[27] ‘Regional Growth Fund’, House of Commons Library, 2 November 2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05874

[28] ‘Regional Growth Fund: Impact and Economic Evaluation Options’, BIS RESEARCH PAPER NUMBER 264, July 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/489494/bis-15-689-rgf-impact-economic-evaluation-options.pdf

[29] ‘Manufacturing: statistics and policy’, House of Commons Library, 6 August 2015, http://researchbriefings.files.parliament.uk/documents/SN01942/SN01942.pdf

[30] ‘Advanced Manufacturing Supply Chain Initiative - West Midlands and Liverpool’, BEIS, 27 March 2017, https://www.gov.uk/business-finance-support/advanced-manufacturing-supply-chain-initiative-west-midlands-and-liverpool; ‘Advanced Manufacturing Supply Chain Initiative (AMSCI): Impact and Evaluation Options’, BIES, 5 November 2015, https://www.gov.uk/government/publications/advanced-manufacturing-supply-chain-initiative-

Around half of funds went to projects in the automotive supply chain, primarily because the first £25 million of funding and the latest round, both for projects in the West Midlands and Liverpool, have been targeted at the automotive and aerospace sectors, with the former being the more dominant industry in the West Midlands. However, Rounds 1 to 4 of AMSCI funding also saw developments across other manufacturing sectors including aerospace (8 per cent), life sciences (4 per cent) and electronics (7 per cent). The 2014 round of funding also included a focus on re-shoring manufacturing with £8.8 million going to projects where re-shoring was the key feature.[31]

A report by the Automotive Council UK in 2015 highlighted the importance of the AMSCI in the funding of the long-term supply chain competitiveness programme (LTASC). By 2015 the programme had secured almost £90 million in investments aimed at increasing competiveness and growing supply chains in the automotive industry. LTASC had seen £12.6 million invested in skills, R&D and capital to support 48 UK suppliers, helping to create and safeguard more than 1,200 jobs.[32]

The SMMT said in evidence to parliament that the 'Regional Growth Fund and Advanced Manufacturing Supply Chain Initiative are two schemes which have provided essential funds to unlock private investment, investment which would not have been possible otherwise, particularly in the supply chain. SMMT seeks a timely reintroduction of programmes which provide equivalent and effective support.'

In 2013 the coalition government published, in collaboration with the Automotive Council, a strategy for growth and sustainability in the UK automotive sector.[33] The strategy included government investment in the APC, which aimed to provide one billion pounds of joint government and private investment in the development, commercialisation and manufacturing of new propulsion technology.

Alongside this the government set up the AIO within UK Trade & Investment (UKTI), funded by up to £3 million over the next two years.[34] Taking direction from the Automotive Council, the AIO is tasked with increasing foreign direct investment in the industry's supply chain and automotive R&D and helping companies export. It plays a role in strengthening links between global automotive HQs and government.

In the SMMT's recent submission to a committee inquiry into UK industrial strategy they state that 'A large part of [the sector's] success can be attributed to industry and government working together to encourage growth and industrial competitiveness'.[35]

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amsci-impact-and-evaluation-options; 'Advanced Manufacturing Supply Chain Initiative AMSCI – West Midlands and Liverpool City Region: Key Features – January 2016', Finance Birmingham, https://www.financebirmingham.com/amsci/wp-content/uploads/sites/2/2014/06/WMLCR-2016-Key-Features.pdf

[31] https://www.cranfield.ac.uk/~/media/Files/all_docs/amsci-presentation-david-kynaston-v5.ashx

[32] 'Growing the Automotive Supply Chain: The opportunity ahead', Automotive Council UK, March 2015, http://www.automotivecouncil.co.uk/wp-content/uploads/2015/03/Growing-the-UK-auto-supply-chain-March-2015.pdf

[33] 'Driving Success – a strategy for growth and sustainability in the UK automotive sector', Automotive Council UK, 12 July 2013, https://www.gov.uk/government/publications/driving-success-uk-automotive-strategy-for-growth-and-sustainability

[34] The Automotive Investment Organisation, https://www.gov.uk/government/groups/the-automotive-investment-organisation#publications (accessed 11 March 2017)

[35] BEIS Select Committee, 'Written evidence from the Society of Motor Manufacturers and Traders', http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Business,%20Energy%20and%20Industrial%20Strategy/Industrial%20strategy/written/39019.html (accessed 24 March 2017)

Along with AMSCI, previous government polices provide examples of how collaboration with (rather than control of) a vital UK industry has encouraged the growth of manufacturing. This has been the case especially when policies have seen investment in R&D and supply chain development, both key aspects of increasing productivity through innovation.

Government support through the RGF and AMSCI has helped unlock billions in investment for the industry, which has continued to grow and remains globally competitive. Given the significant benefits of developing a domestic supply chain, and the ability of such a supply chain to help mitigate the impacts that may arise for exporters post-Brexit, the Advanced Manufacturing Supply Chain Initiative could provide a valuable model for the new government's industrial strategy. With manufacturing investment intentions in the first quarter of 2017 the lowest since 2011, despite the boost in orders following the depreciation of sterling, the government should be seeking actively to leverage business investment to ensure manufacturing industries can continue to succeed once the UK leaves the EU.[36]

### Supporting industry post-Brexit

The vote to leave the European Union will almost certainly have an impact on the automotive industry. The size and long-term direction of that impact will depend on how the industry develops over the next few years. The recent jump in exports leaving the UK is likely due to the impact of the exchange rate becoming more competitive. But the reaction from the industry shows that supporting a competitive UK supply chain will be essential for maintaining and growing the automotive industry, particularly in light of the impact of tariffs and rules of origin. The industry body, the SMMT, has said that focus on the supply chain will be 'critical', which is why it has asked for the reintroduction of programmes which provide support equivalent to and as effective as that offered by the RGF and AMSCI.[37]

Since the 2008 crisis, we have seen that government has successfully supported and helped boost the UK automotive industry. The primary support has come from using the RGF and AMSCI to leverage investment in the UK supply chain, which has contributed to a significant growth of UK supplied automotive content, at 41 per cent in 2015 following an estimated compound growth of 32 per cent in volume sourced from UK suppliers between 2011 and 2015.[38] The success of the projects and the direction of funding toward the automotive industry are likely due to the extent of government dialogue with the industry and the Automotive Council has been at the heart of this.

If the government is serious about creating a business-led industrial strategy that boosts productivity, supports regional growth and raises real incomes across the country, and if it wants to get ahead of any complications that industry may face as the UK leaves the EU, then it must implement policies that will be effective in leveraging investments in the UK domestic supply chain and ensure full engagement not just with the automotive industry, but all other UK manufacturing sectors.

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[36] G. Johnson, 'Manufacturers' investment intentions hit 6-year low', *Financial Times*, 24 April 2017 https://www.ft.com/content/01065254-28d7-11e7-bc4b-5528796fe35c (accessed 28 April 2017)
[37] BEIS Select Committee, 'Written evidence from the Society of Motor Manufacturers and Traders'
[38] Taking into account the increase in the proportion of parts sourced from UK suppliers (from 36 per cent on 2011) and the growth in the number of vehicles manufactured between 2011 and 2015. http://www.automotivecouncil.co.uk/2015/09/growing-the-automotive-supply-chain-local-vehicle-content-analysis/

The government should also be aware of the potential challenges facing other UK manufacturing industries and should seek to replicate the benefits of the positive collaboration between the automotive industry and the government across all major UK sectors. The Automotive Council provides a template which, if replicated elsewhere, could provide that vital infrastructure and ensure that, as the UK adapts to a new international trade environment, the government remains aware of the support industries need to stay competitive and to benefit from any new trade agreements.

As part of the UK government's effort to build a new industrial strategy we recommend that it listens to calls for investment in the UK automotive supply chain. In addition, we call for similar investment across the UK's manufacturing industries through the expansion of the Advanced Manufacturing Supply Chain Initiative or the introduction of a new supply chain initiative that is open to all manufacturing industries across the UK, including the automotive sector, and which, like AMSCI 2014, has some focus on re-shoring supply chains. Such investment should be accompanied by a more prominent role for UK industry-government bodies which should aim to replicate the success of the Automotive Council, in areas such as chemicals, pharmaceuticals, aerospace, defence, and power generation, by encouraging targeted and productive investment. Such a policy should encourage the Department for Business, Energy and Industrial Strategy to engage continually with industry bodies and encourage business-led investment by government in UK manufacturing.

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