The weekend’s Brexit summit appears to have been a success, albeit a qualified one. The European Union approved both the 585-page Draft Withdrawal Agreement on the transition period, which will run from March 2018 through December 2020 with the option of an extension, as well as the far less extensive political declaration on the future relationship between the United Kingdom and the European Union. Parliament could, however, effect a sharp reverse, as there is considerable uncertainty that documents will be approved by the House of Commons. Five days of discussion on a ‘meaningful vote’ are scheduled to take place from 4 December, with a vote expected on the twelfth.

For the Motor Vehicle Manufacturing industry (IBISWorld report C29.100), which is reliant on extremely lean modes of production and is expected to generate £34.3 billion in export revenue in 2018-19, Brexit has been said to be an ‘exercise in damage limitation’. With this in mind, although highly contentious, the Society of Motor Manufacturers and Traders (SMMT) and other industry bodies have welcomed the Draft Withdrawal Agreement as a ‘positive step’ to satisfying the automotive sector’s continued development. At least until December 2020, the Motor Vehicle Manufacturing industry’s just-in-time production systems will remain undisturbed, as the operating landscape and the UK’s position within the customs union is effectively unchanged. The less certain language of the political declaration on the future UK-EU relationship has, however, raised concerns. As UK automotive manufacturing is so highly globalised, any new restrictions to trade are likely to have a significant impact on car manufacturers.

Towards the beginning of the year, IBISWorld highlighted the critical challenge posed by Brexit to UK carmakers. The UK Motor Vehicle Manufacturing industry is expected to once again lead UK exports, at £34.3 billion through 2018-19, although this figure has fallen from the previous year’s figure, as prevailing uncertainty and a lack of future clarity has weighed on performance. Like many advanced manufacturers, carmakers have long employed lean, just-in-time techniques, trusting in the free movement.
of goods across borders to facilitate their streamlined inventory practices, as dispersed production methods make cooperation of paramount importance. Honda, which like most other carmakers only stores around an hour’s worth of parts at its UK factories, stated in September that a no-deal Brexit would cost tens of millions of pounds, whilst Jaguar Land Rover warned that a bad Brexit deal would threaten £80 billion worth of investment, in addition to hitting profitability to the tune of £1.2 billion. Concerns over the effects of non-tariff barriers and the potential implications of a 10% World Trade Organisations tariff in the event of a no-deal Brexit almost halved investment in new models and factory improvements over the first half of the year, compared with the same period in 2017, with the figure falling to £347.3 million. With the brakes already applied to investment and domestic confidence, regardless of progress towards a smoother transition, industry revenue is expected remain under threat.

Draft withdrawal
The SMMT has previously been strident in its criticism of proceedings, stating that the government’s red lines and conflicting messages were working ‘directly against the interests of the UK automotive sector’. Indeed, in September, Jaguar Land Rover CEO Ralf Speth said ‘I do not even know if any of our manufacturing facilities in the UK will be able to function on 30 March’. Fortunately for the industry, the Draft Withdrawal Agreement ensures that the United Kingdom will not drop out of customs and regulatory alignment upon its exit from the European Union, as until December 2020, with the option for a one-time extension, the regulatory, trade and operating landscape will remain largely unchanged, allowing for the fleshing out of a more permanent settlement following the end of the transition period. The SMMT welcomed the Draft Withdrawal Agreement, whilst the CEO of Aston Martin, Andy Palmer, noted that the agreement ‘appeared to meet all the requests’ of the motor industry.

With exports expected to make up 64.7% of the Motor Vehicle Manufacturing industry’s revenue through the current year, the maintenance of existing arrangements through the transition period is vital, although the SMMT did add the caveat that ‘truly frictionless trade is the only way to ensure the industry’s future success’. Fork in the road

Whilst the Draft Withdrawal Agreement may have eased concerns, the document outlining the future UK-EU relationship is less reassuring for any export-oriented industry. Far from a guarantee of frictionless trade, the document offers a number of aims, such as:

“The parties envisage having a trading relationship on goods that is as close as possible, with a view to facilitating the ease of legitimate trade.”

Running to only 26 pages, the political declaration has been received with less warmth, as such phrasing gives rise
Down the road: Respite for the automotive sector?

to considerable uncertainty, and the potential for considerable upheaval to existing modes of operation. Both Nissan and Toyota have expressed concerns, with the latter stating that the document was not detailed enough to assuage its concerns. As ‘investment depends on the tariffs’, the lack of clarity in the declaration is expected to continue to weigh on already weaker expenditure. Moreover, it is also uncertain that the declaration will be approved by the Commons, and this ongoing tension is likely to provide a further check on the resumption of normal operating and investment practices.

One option already available to the myriad manufacturers and facilitators that support the automotive sector’s extensive supply chain is the use of trusted trader programmes. Uptake on these has, however, been slow. For example, at the beginning of 2018, 608 UK companies held Authorised Economic Operator (AEO) status, including large automotive manufacturers such as BMW, and although this has risen to 663, this compares unfavourably with the more than 6,000 German firms that are signed up. Many eligible companies have expressed concerns over the length of the application process but, whilst it is important to note that such schemes are not a silver bullet, the proposed transition period would provide welcome belief in this regard. Moreover, following the UK’s departure, both the United Kingdom and the European Union ‘intend to consider mutual recognition of trusted traders’ programmes’. Should ‘comprehensive arrangements that will create a free trade area, combining deep regulatory and customs cooperation’ prove difficult to attain, AEO status may remain an important competitive advantage in an environment of ‘open and fair competition’, as suggested by the political declaration.

The journey ahead

Ultimately, should the agreements reached with the European Union not pass muster with the House of Commons, the automotive sector will be buffeted by further uncertainty, prolonging the investment slump witnessed for much of this year. The response of industry to the transitional arrangements is, however, expected to bring the importance of ongoing harmony into greater focus. As the largest exporting industry in the United Kingdom, motor vehicle manufacturers, and all connected businesses, have a significant stake in future negotiations, whether they lead to smoother alignment or a more extensive separation.

What is Authorised Economic Operator Status?

The Authorised Economic Operator system is a ‘trusted trader’ programme that aims to enhance international supply chain security and facilitate legitimate trade. It is open to all supply-chain actors and was established in the European Union in 2008. AEO status provides a number of benefits, including: Easier admittance to customs simplifications; fewer physical and document-based controls; prior notification in case of selection for physical control; priority treatment if selected for control; and the possibility to request a specific place for customs controls. AEO operators also receive mutual recognition with third countries and a number of other indirect benefits, such as recognition as a secure and safe business partner.
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