



Briefing July 2019

Impact of a no deal Brexit on UK manufacturing

Unite is the UK's leading manufacturing union representing more than 500,000 workers across the sector.

Unite rejects no deal as an option any responsible government would ever entertain. We have repeatedly warned that enduring Brexit uncertainty poses significant problems for UK manufacturers chiefly:

- trade barrier, customs and tariff uncertainty
- resource diversion due to contingency preparations
- future commitments to investment and product placement
- the UK's reliance on the EU for trade.

The mounting threat that the UK will crash out of the EU on 31 October 2019 is heightening these tensions resulting, as Unite research shows (July 2019), in falling investment and decisions by corporations with global options to place future product and their associated supply chains overseas.

This is before a disastrous no deal Brexit. **Unite's view is that should that fearful scenario come to pass then the consequences for working class communities across the country will be devastating and long lasting.** Jobs, skills and knowledge will be lost, living costs will rise, wages will fall and, with the UK government likely to be desperate to secure trade deals from a position of weakness in trade negotiations, our public services, NHS, regulatory and quality standards as well as workers' rights could all be sacrificed.

The independent Office for Budget Responsibility (July 2019) warned that a no deal Brexit would punch a £30 billion hole in the public finances and push the country into recession.

For sure, UK manufacturing will be ruined by no deal. Unite rejects vehemently Professor Patrick Minford's view that

"If you remove the protection of the sort given in particular to the car industry and other industries [by the EU] then you're going to have a change in the situation facing that industry, and you are going to have to run it down..... in the same way we ran down the coal industry and the steel industry."

Unite represents over half million manufacturing workers. A no deal outcome puts these jobs and the communities depending upon them at severe risk of ruination. These jobs matter. That is why we say No Deal, No Way.

No deal economic impact: losing market access

Reverting to World Trade Organisation terms of trade (GATS) would be a disastrous option. The UK would be expected to face the European Union's common external tariffs. The rate of tariff will differ between sectors and products.

Taking the automotive industry to be indicative of manufacturing, this could be as much as **10 percent for exports and 4 percent on imports**. This would see manufacturers of vehicles and parts incur an annual cost of £1.3 billion on EU bound goods.

The food and agricultural sector - the UK's biggest manufacturing sector - would also be impacted, with **an average tariff of 22.3 percent on agricultural products and 2 percent on non-agricultural products**. **If the UK leaves the EU without a trade deal UK exporters could face the potential impact of £5.2 billion in tariffs on goods being sold to the EU**. However, EU exporters will also face £12.9 billion in tariffs on goods coming to the UK.

The loss of preferential market access to countries covered by some 70 plus EU trade agreements following a no deal Brexit would only add to the impending crisis.

The impact of tariffs on Unite members would be two-fold. Firstly, the cost of tariffs and undermining of competitiveness incurred by employers would invariably be handed down to the workforce, causing growing industrial tensions as workers react to defend their standard of living. Secondly, the rising cost of imports would trigger a cost of living crisis. **The collapse in the value of sterling will not make up for the devastation that will follow** given integrated supply chains and our reliance on imports shown in our balance of trade.

It is clear that following forty years of integration tariff-free access to the Single Market is of vital importance to the employment of many thousands of our members. This is especially true of the manufacturing, agriculture and financial sectors, which have benefited from the lack of crossborder tariffs. Many of our members' largest employers, from HSBC to Airbus, BMW, Astra-Zeneca or Unilever, see their presence in the UK as 'European Hubs' or 'Centres of Excellence'.

Similarly, pending investment decisions for major manufacturers such as Vauxhall/PSA, Nissan and Siemens, are reliant on the UK retaining tariff-free, frictionless access to the Single Market and the 500 million consumers therein. **For both manufacturing and transport, the Single Market's frictionless supply chain is a crucial part of modern industry.**

The automotive industry is indicative of the wider manufacturing base, with **the percentage of UK parts in British-built cars standing at 41 percent**. Firms such as Bentley and BMW, for example, will transfer a single component across national borders multiple times in its journey from creation to inspection and assembly. This model of cross-border manufacturing is prevalent across the entire sector, in Rolls-Royce, Airbus and GKN, global companies manufacturing globally.

This relationship within the UK-Europe components supply chain is two-way. **Two-thirds of the £4 billion of motor components exported from the UK go to the EU**, while the vast majority of materials that go into British-built cars are imported.

Importantly, these supply chains are frictionless allowing the development of just in time synchronised supply chains which operate in a window measured in minutes and hours. For example, **Jaguar Land Rover and Nissan, the UK's two largest car makers, hold only two hours' stock** of some items at their sites in order to minimise inventories and save on costs. This has an inevitable impact on transport workers for whom the logistical impact of exiting the Single Market and the EU Customs Union would be equally damaging.

For international road haulage, the Single Market is fully integrated for all EU operators. With an International Operators Licence there are no border checks, permits required or quota limitations. Any operator with an international licence from any EU State can undertake international road transport between any two EU States without limitations.

EU rules underpin much of the regulatory regime for the operation of the commercial road haulage sector. This includes rules relating to market access, operator licensing, transport manager qualifications, driver licensing and qualifications, drivers' hours and tachograph standards, vehicle standards and road-worthiness. There is a mixture of EU Regulation and EU Directives that have been woven into UK legal frameworks. There is significant cooperation between EU enforcement agencies that is underpinned by EU regulations and directives.

It should also be noted that on the UK side of the channel many of the gateway ports, such as **Felixstowe, Tilbury, Southampton and Dover simply do not have the road or rail infrastructure required for the prolonged border checks** and inspections which would result from the UK leaving the Customs Union.

In the food and agricultural sectors, **more than \$66 billion of food – including foodstuffs, animals and vegetables – are imported each year**, with half of those imports coming from the European Union. The UK also exports the majority of its food, especially meat, to the EU. As with the just in time supply chains in manufacturing, the transportation of food is highly time sensitive. **There is no doubt that without sufficient infrastructure in both UK and European channel ports, the lengthy inspection processes required in the event of a no deal outcome would result in millions of pounds worth of foodstuffs rotting in transporters.**

Unite consulted across its manufacturing sectors for their views on the challenges a no deal Brexit poses for their industries. In brief these are as follows:

Autos sector

The UK's automotive sector employs 850,000 people in this country, delivering £20.2 billion to the economy every year.

Unite's very real concern is that a no deal exit from the EU would be catastrophic for the sector.

Its continued success and commitment to the UK depends on the smooth operation of the supply chain, much of which operates on a just-in-time basis with parts and components criss-crossing the EU during a vehicle's final assembly.

The sector **relies on 1100 trucks delivering components to UK sites every day.**

Were this delivery process interrupted, JLR, to give one example, would need to seek storage facilities and tie up millions of pounds in warehousing and inventory. In reality, this would mean the car maker would have to **construct 11 warehouses the size of Wembley** in which to store components.

In June this year, Unite warned that a **no deal Brexit would be ruinous for car production at Ellesmere Port**. The site is urgently in need of a new model. Unite has been in sustained dialogue with the parent company PSA to bring the new model Astra to the north west thus securing thousands of jobs at the site and in the wider supply chain as well as secure Ellesmere Port's longer term viability. Unite called for no deal to be taken off the table as a matter of urgency to ensure that PSA commits to the UK plant.

Both Honda and Nissan have made decisions about their future in the UK with Honda joining Ford at Bridgend in ending production here in favour of overseas plants.

Food manufacturing

The UK's food industry employs 450,000 people. Over 4 million work in the food supply chain. The sector accounts for 17 per cent of all UK manufacturing.

Unite represents workers from the farm to the factory, including at Kraft/Cadbury, Heinz, Unilever, Baakavor and Greencore. We also have members in Coors brewing, as well as in food distribution and supermarkets such as Sainsburys where we have 17,000 members.

Around 175,000 people are employed in the UK's food transportation sector, many of them represented by Unite, particularly in the distribution of beer and soft drinks (Britvic, Coca-Cola).

The Parliamentary Committee for Exiting the EU has warned that **a no deal Brexit would hit food supplies and be disastrous for UK farming, raising food costs and putting jobs at risk.**

The **UK currently imports around 30 percent of its food from Europe**. Leaving the EU without a deal risks food shortages and empty shelves within weeks according to industry specialists. They have also warned that there is no room to stockpile goods as warehousing and logistics facilities have already been reserved for Christmas stock.

Boris Johnson's recent glib claim that the UK will still have Mars bars in the event of a no deal exit is not only irresponsible, it is also wrong. Chocolate manufacturers have warned that importation of the main ingredients of that chocolate bar - whey, sugar and cocoa - will be disrupted.

Northern Ireland's largest employer is Moy Park, which employs 8,000 in the production of chicken products. Moy Park has sought to minimise damage to its operations by relocating its HQ and research and development facilities to the Republic of Ireland.

Docks

Southampton docks is one of the most important docks for the UK's manufacturing sector and the auto industry in particular. Operating 24 hours a day, 363 days a year, the port employs 15,000 people moving two million containers and 1.3m tonnes of dry cargo every year. It contributes £1 billion to the economy. Ships docking here circle the globe, carrying **up to 24,000 containers packed with cargo, including food supplies and components for our auto, aerospace and wider manufacturing industries.** Cargo can clear in an hour. Of course for EU traffic there are currently no customs, tariffs to be levied or paperwork to be checked. Following a no-deal Brexit, quite apart from tariffs raising prices, delays at the port due to paperwork or clearance will be disastrous for UK manufacturing.

Jaguar, Honda and Mini are among the auto companies relying on Southampton for exports and imports of parts and vehicles. **The port moves 900,000 UK-made vehicles every year, 60 per cent of which are for export.**

If the UK is forced to trade on World Trade Organisation terms, the smooth running of Southampton and other UK ports, alongside the industries they serve, will be severely disrupted, delaying delivery and undermining UK competitiveness, while tariffs will hike the price of products made by our members. **Car manufacturing alone will see up to 10 percent on exports.** Hundreds of thousands of jobs could be hit, not just in autos but in aerospace, steel, shipbuilding, food manufacturing and more, along with our colleagues on the docks and any number of others in extended supply chains and logistics operations.

Steel

Our officers report real fears that global companies such as TATA and Liberty will not continue to manufacture in the UK due to

- Customer uncertainty.
- Tariffs on exported material.
- Limited access to EU markets.

The liquidation of British Steel is in no small part due to customers' fears of tariffs and the uncertainty surrounding market access, both in the EU and Turkey where orders have collapsed.

Chemicals and petroleum

Investment and medium to long term job security are the chief concerns. Employers in the companies where Unite has members tell our officials that a no deal Brexit is a disaster.

The future of the UK sites after a no deal exit is extremely concerning and in the hands of global boards with global investment options. Employers are concerned over the future of industry legislation and the free movement of skilled labour that will curtail their ability to attract the best minds for research and development which would have a significant impact on decision making for future UK site/employment stability.

Companies have been scenario planning to ensure that their businesses continue to function. This has seen most of them spending tens and in some cases hundreds of millions of pounds to function now

as they did pre-Brexit vote. This additional spend is essential to ensure cross-border sustainability for their testing and logistics. Unite fears that this significant outlay in order to maintain present functionality will deter further investment into UK sites and jobs in the event of a no deal Brexit.

Print, Paper and IT

Unite's stewards in this sector report the main concerns of a no deal as

- Front loading / stockpiling (e.g. ink stockpiling) which is very expensive and ties up cash.
- Further devaluation of the pound would have a huge impact as most businesses trade in Euros.
- A scarcity of drivers.
- National security issues around work being offshored (e.g. printing of passports).

Aerospace & Shipbuilding

Not being in, or having some form of a customs union, is the biggest risk facing the sector should there be a no deal Brexit.

Companies like **Rolls Royce and Airbus** are engaged in contingency planning costing tens of millions of pounds in the event of a no deal Brexit. However, the concern is the impact lower down the supply chain and the ability of small companies being able to cope and react.

Access to markets and the certification of manufactured parts is a huge worry to companies like Rolls-Royce who have moved certification to Germany and continue to press for a common regulatory framework as exists currently with EASA and EURATOM.

Rail

The greatest concern is the additional cost and delays to supply of the components as well as the possible threat to health and safety standards.

UK train manufacturers source the large castings for engines from across Europe and further afield. The UK does not have the foundries that we once had to carry out such work domestically. Importing the castings from beyond the EU adds transit delays.

Additionally the introduction of new digital signals will mean that all the current signals will need to be replaced and new transponders fitted into tracks. With the manufacturer of these systems based in the EU, there are concerns over supply and the additional cost.

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