Unite the Union submission

Brexit and the implications for UK business inquiry

Automotive

Submitted on behalf of

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Introduction: Unite, Brexit & Automotive

This submission is made by Unite, the UK's largest trade union with over 1.4 million members across all sectors of the economy including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, information technology, service industries, health, local government and the not for profit sector. Unite also organises in the community, enabling those who are not in employment to be part of our union.

Unite organises over 90,000 members across the Automotive sector, in both major assembly sites and throughout the supply chain.

Unite's position on Brexit is for a just final settlement in the interests of workers in both the UK and in Europe. This settlement should include barrier-free access to the Single Market, a customs arrangement with the EU, regulatory consistency, the retention of employment rights in UK law, the right to remain for European workers in the UK and continued membership of mutually beneficial agencies and treaties.

In the immediate term, Unite opposes 'Hard Brexit' which is understood to mean leaving the commercial, judicial and political structures of the European Union before a new relationship is established. Unite supports a transitional period to follow the Article 50 negotiations if such a long-term settlement has not been reached.

An Overview of the Automotive Industry

> *"Given both opportunities and risks arising from Brexit for UK auto, a better funded and more active industrial policy is now needed to boost competitiveness in the UK automotive sector and manufacturing."*[1]
>
> Professor David Bailey, Professor of Industry at Aston University

The Automotive industry has been the major success story of British manufacturing, experiencing a renaissance since 2011 that defies three decades of deindustrialisation. The link with Europe has been central to this success. Of the 1.6 million vehicles produced in the UK 80% are exported and over 50% of these exports go to Europe.

Britain's automotive production lines are highly globalised. The majority of employers with UK car assembly plants are international firms from American Ford, to German BMW (Mini, Rolls-Royce), French PSA (Vauxhall), Japanese Nissan and Toyota, and Indian Tata Motors (Jaguar Land Rover.)

Before the referendum the amount of vehicles assembled in the UK was set approach the 2 million mark by the end of 2017 following years of consecutive growth. Ongoing falls in investment, production and consumer demand will prevent the sector reaching this milestone in the months ahead. Nevertheless, production remains at a historic high and it is important to recognise that these vehicles are not manufactured in isolation.

The automotive supply chain is an integrated, Europe-wide network, which benefits from border and tariff free access across the Single Market. So integrated is the British-European supply

[1] David Bailey, *What does Brexit mean for the UK's automotive industry*?, UK in a Changing Europe, 25 July 2016 URL

chain that in the German state of Bavaria alone 1,500 companies export automotive parts to the UK, a trade worth £13 billion in 2015.[2]

As Professor David Bailey from Aston University, states: "*Automotive and engine assemblers like PSA, BMW and Ford all import sizeable inflows of components to the UK from their other EU operations. Anything which puts these trading relationships at risk, whether currency risk or higher transactions costs from having to deal with EU* and *UK regulations separately, reduce the likelihood of further investment*."

Has Uncertainty Threatened Investment?
The greatest threat to the sector remains the uncertainty of the future UK-EU trading relationship and the impact on investment. The EU is the largest source of inward investment in UK. In 2013, EU countries accounted for £453 billion worth of inward FDI, (foreign direct investment); that's 46% of the total.

This investment is incredibly sensitive to uncertainty. History shows the biggest hit to investment in the UK's modern history came in 1992, when Britain exited the Exchange Rate Mechanism, while the biggest boost resulted from the UK joining the Single Market.

For new vehicle models, it is important to recognise the industry's cyclical pattern of lead times and new launches. Production lines continue to turn out vehicles and components planned and commissioned before the referendum was even called.

The danger facing automotive is that investment decisions for the launch of new vehicle models are made two to three years in advance and for many companies those decisions are set to be made in the coming months, during a time of maximum uncertainty.

	2017	**2018**	**2019**		**2020**	**2021**	**2022**	**2023**	**2024**
Honda	Civic							Civic	
Vauxhall						Astra		MPV	
Mini		Countryman	Electric Mini				Clubman	Mini	
Toyota		Auris / Avensis					Auris		
Nissan	Leaf / Juke	Note			Qashqai	Infinity Q30			
Jaguar	XJ					F-Type	XF /XE	F-Pace	XJ / XJR
Land Rover		Evoque	New Defender		Range Rover Sport		Discovery Sport		Evoque / Discovery[3]

As the grid above shows, investment decisions have already been made for the production of new car models in 2017 and 2018, including the Nissan *Duke* and the Toyota *Auris*. However, the investment decisions for cars which will be manufactured after 2019 are yet to be made. This includes the Honda *Civic,* which will begin production in 2023, and the Range Rover *Sport* which will enter production in 2020.

[2] Philip Oltermann, *Why untangling UK industry from Europe may be 'impossible*, The Guardian, 21 July 2016. URL
[3] Table data via PA Consulting

There are two additional factors. Firstly, for a plant to be sustainable investment must be secured for two consecutive models, not just one. For example, while the *Auris* is anticipated at Toyota's Derbyshire plant, there are no concrete plans for a subsequent vehicle to keep the plant sustainable up to and following 2022.

Secondly, while some large marquee investments have been announced, such as the electric-Mini going to BMW's Oxford site, underlying investment in machinery and other capital spending which keeps plants productive and competitive has been frozen. In the case of the E-Mini it is notable that the new batteries and the electric drive-line will both be imported from Germany.

If a freeze on investment impacts productivity the UK industry will lose a central reason of its success. The UK boasts 70% car plant utilisation, with many plants running 24 hour operations. This compares very favourably to European nations such as Italy, where utilisation lags at 50%.

For example, Nissan's Sunderland car plant was the UK's most productive in 2015, building one-in-three of all new vehicles.[4] The risk is that firms with joint enterprises such as Nissan-Renault will try to take advantage of the spare capacity on the continent, especially if uncertainty can be used to justify it.

All of these investment decisions will be made in what looks to be at least a two-year window of uncertainty. Car makers will simply ask: Will the UK have access to the Single Market? Is investing in UK production worth the risk?

This risk is greatest for 'mass market' producers who operate on low margins, low capacity, are reliant on exports and have new models at the planning stage. This is why PA Consulting [5] has named Toyota and Vauxhall as the firms most at risk from Brexit.

It's also true that manufacturers may try to use uncertainty as an excuse, either to outsource production or hold down pay. The announcements that major manufacturers Delphi (Suffolk) and Cummins (Lincolnshire) both plan to outsource production to Romania, citing Brexit as a reason, may evidence this opportunism.

European Political Influence

It should also be noted that Jaguar Land Rover, has invested in new operations in Slovakia[6]. These operations may be increased if this becomes a more affordable route into both the Single Market and European political influence.

This influence is important as manufactures have relied on the British government to be their advocate on the European stage, for example influencing EU directives on emissions. Were the UK to adopt the 'Norwegian Model', or any form of membership which doesn't give Britain political influence on laws and regulations, firms will look elsewhere.

Employer Opportunism: Pay & Industrial Relations

Unite is surveying our network of 22,000 front line workplace representatives and shop stewards to monitor the industrial impact of Brexit. Thus far economic issues, such as the holding of new planned investments, are the result of uncertainty which could be addressed by a transitional arrangement.

Some employers are clearly attempting to use Brexit and the uncertainty surrounding the future relationship as a smokescreen to undermine industrial relations. This has included attempts to

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[4] *Nissan says Brexit deal will determine future UK plant investment*, Reuter, August 2016
[5] *The Impact of Brexit on the UK Automotive Sector*, PA Consulting, URL
[6] *Jaguar Land Rover Confirms New Factory in Slovakia*, December 2015 URL

exclude trade union reps from European Works Council meetings, ignore EU rulings on holiday pay and overtime or artificially impose pay freezes.

Where Unite is a recognised trade union with organisation in the workplace these opportunistic attacks have been repelled. Clearly an abrupt end to the panoply of workers' rights, regulations and standards underpinned by EU law would be the signal for the UK's worst employers to step up this offensive. Unite has pledged that working people will not be allowed to pay the price for Hard Brexit and an industrial offensive by employers would be met in kind.

Unite General Secretary Len McCluskey has been clear on this point, stating: "*Unite is putting employers on notice, they need to realise that if they use Brexit as an excuse for attacking workers' pay and conditions, we will challenge and expose them*."[7]

Has Brexit Boosted Exports?

The devaluation of the Pound following June 23rd has boosted exports; which has helped to off-set the uncertainty. In August 2017 exports grew 61.7% thanks to increased EU demand, offsetting a decline in domestic output, which fell for the 15th consecutive month, by -13.0%.

Figures from the Society of Motor Manufacturers and Traders (SMMT) show that the UK new car market fell for the sixth consecutive month in September – down -9.3% to 426,170 units. This is the first time the important September market has fallen in six years.

Automotive: The Impact of Hard Brexit

It is Unite's view that a 'Hard Brexit' would result in reverting to World Trade Organisation terms of trade (GATS), which would be disastrous for the automotive industry.

This is because the UK would be expected to face the European Union's common external tariffs. For the automotive industry, which is indicative of wider manufacturing, this could be as much as 10% for exports and 4% on imports. This would see manufacturers of vehicles and parts incur an annual cost of £1.3 billion on EU bound goods.[8]

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.[9]

Unite is deeply concerned about the impact of tariffs on our members. Employers would invariably attempt to handed down the cost of tariffs to the workforce, either in attempts to hold down pay or, in the worst case scenario, with lost employment if production falls or employers relocate.

Many of our members' largest employers, from Ford to BMW, see their presence in the UK as 'European Hubs.' Similarly, pending investment decisions for major manufacturers such as Vauxhall, Nissan and Honda, are reliant on the UK retaining tariff-free 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 per cent. 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.

7 McCluskey's fury over bosses trying to use Brexit to cut workers' pay, Labour List, URL
8 Potential post-Brexit tariff costs for EU-UK trade, Civitas, URL
9 Potential post-Brexit tariff costs for EU-UK trade, Civitas, URL

This relationship within the UK-Europe components supply chain is two-way. Two-thirds of the £4 billion of motor components that are exported from the UK goes to the EU, while the vast majority of materials that go into British-built cars are imported.[10]

Importantly, these supply chains are 'frictionless' allowing the development of so-called 'Just in Time' supply chains which operate in a window measured in hours. For example, Jaguar Land Rover and Nissan, the UK's two largest car makers, hold only two hours' of 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, vital to the automotive supply chain and sales market, 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.[11]

It should also be noted that on the UK side of the channel many of the gateway ports, such as Felixstowe, Tilbury 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.

Mitigating Brexit: The Need for an Industrial Strategy

The government has to do more than just strike a new agreement with Europe. Along with the loss of funding for new car models, the EU also funds research into new technology such as autonomous driving and electric vehicles. The government must fill any gaps in lost funding, harnessing this new technology for new large scale infrastructure projects.

Such investment must form part of the government's commitment to a new industrial strategy, created in consultation with Unite and industry.

The UK can follow the examples of Norway and Germany, which have invested in the promotion and development of electric cars. While in Germany government subsidies made the vehicles affordable, in Norway government investment resulted in over 5,600 public charging stations[12], making the country a leader in e-vehicles.

An industrial strategy should also incentivise new investment, while removing barriers to further re-shoring of the supply chain and vehicle assembly.

Tax options include bosting capital allowances, rather than cutting corporation tax, following the example of President Obama's 'blueprint for U.S. manufacturing' in 2012.[13]

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10 UK car industry fears effects of Brexit tariffs on supply chain, Financial Times, October 2016, URL

11 House of Lords EU Internal Market Sub-Committee Request for Evidence from the Road Haulage Association on trade in non-financial services, Road Haulage Association

12 *Norway's electric vehicle revolution: Lessons for British Columbia*, Pacific Institute for Climate Solutions URL

13 *Blueprint for an America Built to Last*, The White House, 2012, URL

Access to affordable energy is cited as a barrier to re-shoring and new investment, not only by automotive employers, but also by the British Ceramics Federation and the Chemical Industries Association. The UK has the most expensive electric in Europe, mostly due to lack of capacity. Sweden and Germany have introduced energy compensation schemes which could overcome this barrier.

Similarly access to skills is a concern for all manufacturers. While skilled migration will remain politically contentious, this is a home grown problem which can be addressed through investment in training. The UK government could devolve investment in skills to city or regional level, so gaps are plugged most effectively.

While the UK government grapples with the many incompatible demands and expectations raided by the referendum, the message from the automotive industry is unanimous. If forced to choose between access to the Single Market or ending Freedom of Movement, the government must choose the former.

Unite backs industry's call that access to the Single Market must be a government priority, this must be followed by an industrial strategy and greater long-term support for automotive and wider manufacturing industries.

Unite has outlined a more detailed proposal for an integrated industrial strategy here. This is based on 'six pillars', themes which are applicable across the economy and are vital for an integrated and long-term industrial strategy.

1. **Investment:** in infrastructure projects (including housing, transport and energy), research and development and public services which boosts productivity, creates good jobs, raises living standards and builds a more equitable society. Government must also provide long-term contingency planning to protect employment and communities.

   For the automotive industry this would include investment in new battery technology, removing the barriers to the mass take up of Electric Vehicles and supporting the supply chain to retool and reskill for new electric components.

2. **Positive procurement:** creating a stable, internal market by recognising social value and using public spending to support UK manufacturing and services, and promote and advance equality, fairness and a sustainable environment.

   For the automotive industry, this would include supporting public bodies including local councils, the NHS and the fire brigades, to procure vehicles based on social value and support UK manufacturing.

3. **Skills: reskilling and apprenticeships:** including offering genuine opportunities for advancement through high quality apprenticeships and opportunities for re-skilling and upskilling for the workforce to meet technological changes.

   For the automotive industry this would include supporting a just transition to the jobs required for new generation vehicles, with a comprehensive plan for upskilling, reskilling and new apprenticeships.

4. **Automation:** making the UK a leader in the new technologies which will revolutionise manufacturing, the service sector and transport industries. This must be coupled with policies and workplace protections for workers to ensure that the positive potential of technology is realised for all.

5. **Corporate governance:** giving people genuine control over their working lives, from the shop floor to the boardroom. Reform must end the endemic short-term culture of UK business, ensure transparency and provide protections for workers and communities affected by takeovers.

6. **Working rights and worker voice:** Supporting worker voice, strong trade unions and collective bargaining, and ending exploitative practices such as zero hours contracts, blacklisting and bogus self-employment. Government must work with trade unions to create a legal framework for sectoral collective bargaining to ensure strong protections improving wages and conditions for all workers.