

Chapter 1: Globalization

Cast Study: Brexit and the Car Industry

Suggested answers to case study questions

1. **Why would car firms locate production in the UK?**

The discussion should cover factors related to markets and production. Car firms have been attracted to the UK by its membership of the EU and the free access this gives to EU markets, including the UK market itself which is not insignificant. Due to the removal of tariff and non-tariff barriers e.g. regulations relating to cars, car firms based in the UK can sell freely across the EU.

Students could examine production aspects such as: the quality, availability, and costs of labour; availability of suitable land; infrastructure links, particularly transport links; the network of component suppliers; existence of the economic incentives offered by governmental bodies.

Students could be directed to the report by the UK government at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/211901/13-975-driving-success-uk-automotive-strategy-for-growth-and-sustainability.pdf

and the article at:

<http://www.areadevelopment.com/Automotive/2013-Auto-Aero-Site-Guide/auto-sector-suppliers-location-decisions-27272911.shtml>

2. **Discuss the uncertainties for car firms caused by Brexit.**

A major uncertainty following the referendum result in 2016 concerned the terms of the trade deal that would be negotiated between the UK and the EU. The situation was exacerbated by the uncertainty as to whether there would be a transition deal, where the status quo on trade would prevail, after withdrawal from the EU. UK car firms were dependent on, EU markets, elaborate cross-border supply chains operating on a just-in-time basis, and their ability to recruit and transfer staff across borders. The industry feared any deal that would threaten its ability to exploit these benefits.

3. **Why is the car industry particularly concerned about the imposition of tariffs on automotive exports and imports?**

The UK industry was concerned that tariffs on its exports to the EU would make it less competitive in EU markets and lead to a fall in revenues and/or profits. It also feared that the imposition of tariffs by the UK on components brought in from the EU would increase production costs and have an adverse impact on competitiveness.

4. **a.) What non-tariff barriers (NTBs) could be introduced after Brexit?**

Possible new NTBs include: the establishment of border controls; changes in technical specifications of products, health and safety rules and regulations on rules of origin/local content; discriminatory public procurement policies.

b.) What impact could NTBs have on car makers?

Border controls could cause delays and increase transport costs. They could also result in car makers having to hold more stocks of components because of their effects on the just-in-time free flow of goods across borders. There could be divergence after withdrawal between EU and UK regulations regarding technical specifications which could increase costs with manufacturers having to conform to different regulatory systems. The EU, and other countries with whom the UK wishes to conclude trade deals, could demand that UK car exports a certain proportion of UK-produced content. Some car makers envisage difficulties if the proportion set is high because of weaknesses in the UK automotive supply chain.

See the article at:

<https://europe.autonews.com/article/20171127/ANE/171129783/automakers-fear-rules-of-origin-brex-hit>

5. **a.) How did the UK government respond to pressure from Nissan and the Japanese authorities?**

The UK authorities reacted quickly to the concerns raised by Japanese car makers like Nissan around Brexit with private meetings being held at the highest levels of government with assurances being given to the car makers.

See the article at: <https://www.autocar.co.uk/car-news/new-cars/government%E2%80%99s-brex-hit-offer-nissan-be-extended-all-car-makers>

b.) Give reasons for the UK government response?

The UK government feared that Brexit would lead to Japanese companies running down their investment in the UK and locating the production of new models elsewhere in the EU. This could have had serious consequences, for example for the economies of Sunderland and the North East of England (Nissan), and Derbyshire (Toyota).

See the article at:

<http://europe.autonews.com/article/20180209/ANE/180209764/nissan-honda-toyota-warn-about-brex-hit-high-stakes>

6. **Justify car industry claims that unrestricted access to the single market is in the best interest of the UK economy.**

The major justification is the industry's contribution to the UK economy as regards production, income, employment, and exports. In 2017 the car industry turnover was £82 billion with an added value of over £20 billion. The

industry employs more than 800,000 workers and also generates much income and employment indirectly. EU markets are major customers for UK car exports—in 2017 more than half of UK car production was exported to EU member states.

See various documents on Brexit and the car industry at the Society of Motor Manufacturers and Traders at: www.smmmt.co.uk. For example: <https://www.smmmt.co.uk/wp-content/uploads/sites/2/SMMT-Sustainability-Report-2018-WEB-FINAL.pdf>

See also the web site of European Automobile Manufacturers Association at: www.acea.be