

Singapore, 23 November 2017

The effects of a "hard" Brexit will be decisive for the innovation capacity and competitiveness of the British automotive industry

- **The first adverse signs: investment, production and sales in decline**
- **Access to the European single market is and will remain vital**
- **Financial obstacles and a drop-off in labour quality are to be anticipated**

Heavy dependence on the European market

After an exceptional peak in production of vehicles recorded in mid-2016 (1.02 million unit sales, up 8.5% for the January-August period compared to the same period in 2015), 2017 saw a drop in production of nearly 2%. The healthy dynamic of exports in this industry, strongly oriented toward the European market (79% of vehicles assembled in the UK are exported, 56% of which to the other countries of the EU), does not compensate the drop in internal demand generated by a loss of consumer confidence.

The dependency of the British automotive industry on the European market does not stop at exports. The sector imports 56% of the parts needed for the assembly of a vehicle, and is well-integrated in the European value chain, enabling it to optimise costs, stocks and production times.

In parallel, since 2016 a steep decline has been observed in the investments of automotive suppliers and manufacturers (a 36% drop compared to the average for the 2011-2015 period), a trend that is becoming more pronounced in 2017, despite 28 new model launches (all vehicle manufacturers combined) tabled in between 2017 and 2024. The prospects linked to the difficulties and the outcome of the Brexit negotiations risk continuing to damage the appeal of the country for foreign investors, including the parent companies (Tata Motors, BMW, Nissan and PSA) of a good number of British car brands.

Competitiveness and innovation efforts in danger

"The European single market is quite clearly vital for the British automotive industry. In the scenario of a hard Brexit, with the implementation of strict goods controls and application of WTO tariffs, the risks would be multiplied," says Khalid Aït Yahia, Coface economist specialised in the automotive and metals sectors.

Three major consequences would make themselves felt in this case:

- Decline in competitiveness

The United Kingdom does not have sufficient numbers of local equipment suppliers. In Europe, a car part can travel via 15 countries¹ before being finally assembled on a vehicle. The absence of a free-trade agreement with the European Union would mean 10% increased costs for a vehicle and 3% for a part, according to the tariffs deriving from the WTO agreements.

- Lack of skilled labour

The UK's membership of the European Union facilitates the hiring of qualified engineers and technicians against the background of a scarcity of home-grown scientific and technical graduates. Consequently, assuming the restrictions placed on economic immigration as demanded by the "leave" camp, the difficulties in this area will be exacerbated over the short to medium term.

- Question marks hanging over the financing of innovation

The UK's lead within Europe in the development of hybrid and electric vehicles stems, in part, from the innovation funding programmes launched by the European Union (the FP7 2007-2013 framework programme, followed by the Horizon 2020 plan, but also a £250 million loan from the European Investment Bank). In the post-Brexit period, the question marks hanging over the funding of innovation could further undermine the British automotive sector.

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¹ According to the European Association of Automotive Suppliers (CLEPA), April 2017