

Brief March 2013

Full speed ahead

An industrial strategy for the UK automotive sector

David Leach | industrial strategy | CBI
 email: david.leach@cbi.org.uk



The automotive industry is the UK’s largest sector in terms of exports by value and is well placed to support efforts to rebalance the economy towards trade and investment. A long-term plan for securing growth and industrial competitiveness in the UK automotive sector should therefore be at the heart of the government’s overall vision for industrial strategy

The UK possesses one of the most diverse and productive automotive sectors in the world and the industry makes a substantial contribution to the UK economy (**Exhibit 1**). The sector benefits from the presence of seven global volume car manufacturers, eight commercial vehicle manufacturers, ten bus and coach manufacturers, around 2,350 component manufacturers in the supply chain, as well as being home to eight Formula One teams.¹

The CBI’s report *Playing our strongest hand: maximising the UK’s industrial opportunities*, published last year, called on the government to spearhead a new approach to industrial

strategy to support sectors of the economy, such as automotive, where the UK has particular strengths and high growth potential. By championing sectors where the UK has clear competitive advantage, the CBI estimates there to be £30bn worth of export opportunities for the UK economy by 2020.²

We therefore welcome the government’s recognition of the strategic importance of the UK automotive industry and its plans to partner with business to develop an automotive sector strategy in 2013.

Exhibit 1 Fact check

According to statistics from the Society of Motor Manufacturers and Traders (SMMT), the UK automotive industry delivers considerable benefits for the UK economy:³

- A £55bn annual turnover with £12bn in net value-added delivered to the UK economy, contributing 2.3% to overall UK GDP in 2011
- The sector now manufactures 1.6 million cars and commercial vehicles and over 2.5 million engines annually – the UK is now Europe’s second largest new car market, ahead of France
- 720,000 people employed in the automotive sector across manufacturing, retail and aftersales – 140,000 directly employed in manufacturing
- Global vehicle manufacturers have invested more than £6bn in the UK automotive sector in the last two years
- UK automotive companies currently invest over £1.5bn a year in research and development (R&D)
- The automotive industry is the UK’s largest sector in terms of exports, generating around £30bn of annual revenue
- The sector exports to over 100 markets worldwide and accounts for around 11% of total UK exports.

The automotive sector is a growth engine for the UK economy and there are opportunities to build on its strengths in domestic and international markets

The UK automotive sector has a number of competitive advantages that provide strong foundations for future investment and growth, not least the strategic vision and leadership of the Automotive Council (**Exhibit 2**). The industry is home to some of the most productive car plants in Europe, has a world-class reputation for design and innovation, and is at the forefront of developing new low-carbon vehicle technologies.

The industry now has a clear opportunity to build on these strengths by exploiting opportunities to:

- **Enhance R&D capabilities in emerging technologies, such as low-carbon vehicles, to build long-term competitive advantage in automotive manufacturing**

The industry has already identified five priority technologies to develop in the UK to ensure the sector strengthens its capabilities in R&D, which is crucial for encouraging investment and sustaining long-term competitiveness in automotive manufacturing. In particular, there are opportunities presented by the global shift to low-carbon technologies in automotive vehicle production. Estimates suggest the shift towards a low-carbon economy could see in excess of £150bn invested in low-carbon vehicle technologies over the next 20 years.⁴

- **Strengthen the UK supply chain to attract inward investment and capture more business from overseas**

The UK automotive sector has already benefited from considerable investment by global vehicle manufacturers over the last five years. In 2011 alone there was over £4bn of new investment announcements in the UK which supported the creation of 9,900 new jobs and safeguarded another 12,000 across vehicle manufacturers and the supply chain.⁵

These new investments and expansion plans present UK suppliers with the opportunity to win back business from overseas and become indispensable partners to global vehicle manufacturers. Analysis by KPMG estimates that the aggregate supplier opportunity in the UK could increase from £11bn in 2012 to £21.5bn in 2016.⁶ Similarly, research from the Automotive Council has already shown that 80% of all component types required for vehicle assembly could be produced in the UK if capability gaps are addressed, amounting to approximately £3bn of unfulfilled opportunities for UK suppliers.⁷

‘...UK car exports to China have the potential to grow to 124,000 in 2020’

Exhibit 2 Sector leadership: the role of the Automotive Council

The UK automotive sector is well-placed to capitalise on future growth opportunities given the strong industry leadership provided by the Automotive Council. Established in December 2009 as a key recommendation of the industry-led New Automotive Innovation and Growth Team (NAIGT), the council coordinates dialogue with government on removing barriers to growth and improving the overall business environment in which the sector operates.

The council is driven by leading industry representatives and is jointly chaired by the secretary of state for business, innovation and skills.

The level of commitment from both government and business is significant, and the involvement of ministers and officials provides industry with confidence that there is political buy in and support for the council’s analysis and recommendations.

- **Extend the reach of the UK automotive sector in high-growth export markets**

Global vehicle demand is set to proliferate with the rise of emerging economies. By 2050 there is expected to be more than one billion more passenger vehicles on the road than today. Car ownership in China alone is estimated to overtake the US by 2030, and together China and India are expected to account for a third of all global car ownership by 2050.⁸

This global shift in demand presents considerable growth opportunities. Analysis by the CBI indicates that if the UK were to maintain its share of the Chinese premium brand sector, UK car exports to China have the potential to grow from 55,000 in 2011 to 94,000 in 2015 and 124,000 in 2020. Based on these predictions, the value of exports to China could grow from £2bn in 2011 to £9.3bn by 2020 – an increase of £7.3bn over nine years.⁹

But the automotive sector must overcome key challenges to ensure it remains internationally competitive

There are a number of challenges facing the UK automotive sector which need to be addressed to sustain investment and growth in a highly competitive global industry:

- The present overcapacity in the European automotive market is being magnified by the slowing down of the major eurozone economies – Germany, France, Italy and Spain. Low growth and high unemployment across Europe is curtailing consumer demand and increasing price competition for automotive products and services, and UK automotive firms are under pressure to control costs in order to sustain competitiveness.



- The uncertainty surrounding Europe's political future also presents a short-term challenge for the sector. The industry currently exports more than 82% of vehicles manufactured in the UK, with 48.9% of total automotive exports going to the 27 EU member states.¹⁰ Growth in the short term is therefore dependent on the government retaining an active role in promoting industrial competitiveness across the single market and influencing EU trade policy to maximise the export potential of UK automotive manufacturing.
- Despite UK output growing faster than that of the EU and the global average, the sector still remains a relatively small player by volume in an industry dominated by the US, China, Japan and Germany. Consequently, the UK supply chain lacks some of the critical mass associated with competitor nations with higher production volumes, and in particular suffers a shortage of Tier 1 suppliers.
- The industry faces significant skill shortages as well as difficulties in attracting young people into careers in engineering and advanced manufacturing. It has made some good progress in increasing the number of apprenticeship starts, but there are long-term supply issues at graduate level. For example, recent analysis from the Royal Academy of Engineering estimates the UK economy will require more than 100,000 STEM graduates annually for the period 2012-2020, with far too few students graduating from university each year to satisfy demand.¹¹
- Access to finance remains a critical issue for UK automotive companies seeking to invest for growth. A number of CBI members have been successful at winning Regional Growth Fund bids, but the time it has taken to bid and the bureaucracy involved in accessing funds has been excessive, sometimes taking up to 12-18 months. Another challenge is presented by the reluctance of banks to lend to suppliers due to the perceived risk involved in an industry where lead times for new products can often be 5-7 years or more.

The automotive sector strategy provides an opportunity to set out a long-term vision for growth

The CBI supports the dialogue that is underway between government and industry to develop a long-term sector strategy for the UK automotive sector. In particular, we are keen to ensure it secures buy-in from across Whitehall and is aligned with the government's overall vision for a UK industrial strategy.

To strengthen the competitive advantage of the UK automotive sector and fully exploit future investment opportunities in the UK industrial base, the CBI believes specific action is required by government and industry to:

- Ensure the UK is globally competitive as a location for automotive R&D investment
- Develop funding mechanisms to encourage supply chain growth in the UK automotive sector
- Improve the competitiveness of the UK vehicle tax regime
- Ensure the UK automotive sector has access to a qualified and skilled workforce
- Capitalise on opportunities to grow automotive exports abroad.

'...the UK economy will require more than 100,000 STEM graduates annually for the period 2012-2020'



Ensure the UK is globally competitive as a location for automotive R&D investment

- Enhance the UK's capabilities in automotive R&D and innovation, including by supporting the commercialisation of emerging technologies such as electric cars, fuel cell technologies and intelligent mobility systems
- Explore the benefits of establishing an Automotive Advanced Propulsion Centre of Excellence, with long-term funding matched by industry, to encourage collaborative R&D on the development of low carbon propulsion systems in the UK
- Examine long-term funding levels for the Technology Strategy Board and streamline its activity to focus on projects that can be commercialised by industry.

Ensure the UK automotive sector has access to a qualified and skilled workforce

- Urgently address the shortage of STEM graduates coming out of university so that UK automotive firms can continue to benefit from a consistent pipeline of highly qualified and skilled engineers
- Explore the potential to develop new apprenticeship qualifications for the UK automotive sector, in line with recommendations in the recent Richards Review
- Encourage the development of more sector-specific University Technical Colleges to promote the UK automotive industry as an attractive career destination with students aged 14-19
- Enhance the image and public profile of the UK automotive sector, building on the success of the 'See inside manufacturing' initiative.

Develop funding mechanisms to encourage supply chain growth in the UK automotive sector

- Intensify the existing dialogue between banks, OEMs and their suppliers to help identify where tooling finance is needed to support firms' investment and growth strategies
- Implement the Business Bank in a way that simplifies the landscape of Government finance schemes and encourages more capital investment in key supply chains such as the UK automotive industry
- Establish the Advanced Manufacturing Supply Chain Initiative (AMSCI) on a more permanent footing and reduce bureaucracy in the scheme to make it more attractive to investors
- Improve business confidence in the Regional Growth Fund (RGF) by introducing greater transparency into the allocation and sign off processes.

Capitalise on opportunities to grow automotive exports abroad

- Establish strategic relationships in high-growth international markets, such as China, India and Russia, to capitalise on opportunities to grow UK automotive exports, whilst retaining a strong voice in shaping EU trade policy to promote the importance of free trade
- Coordinate a UKTI campaign to attract more Tier 1 automotive suppliers to invest in the UK, so that UK automotive firms can make a greater contribution to net exports
- Encourage UKTI and UK Export Finance to take steps to promote their activities with more small and medium-sized businesses in the UK automotive sector, ensuring availability of export finance and guarantees for products and services.

Improve the competitiveness of the UK vehicle tax regime

- Building on the positive signals in budget 2013, ensure the UK maintains an internationally competitive vehicle taxation regime – eg Vehicle Excise Duty (VED) and Company Car Tax (CCT), which is consistent with the government's industrial strategy vision and wider ambitions on encouraging growth and business investment.

Successful implementation of the automotive sector strategy will require government and business to adhere to the following key principles identified by the CBI:

- Whole government ownership and effective coordination of policies across departmental boundaries
- Overall policy coherence with the other sector strategies being implemented – eg aerospace industrial strategy
- Commitment to improving the competitiveness of the UK business environment for the benefit of all sectors, with targeted actions on cross-cutting issues, including skills, tax and access to finance.

Footnotes

- 1 Motor Industry Facts 2013, SMMT (2013)
- 2 *Playing our strongest hand: maximising the UK's industrial opportunities*, CBI (2012)
- 3 Motor Industry Facts 2013, SMMT (2013)
- 4 Invest in UK automotive, Automotive Council (2013)
- 5 Manufacturing industry urged to bid for extra growth funding, SMMT (2012)
- 6 *Capturing opportunity – an assessment of UK automotive supply chain opportunities*, KPMG (2012)
- 7 Growing the automotive supply chain: the road forward, Automotive Council (2011)
- 8 *Mass car ownership in the emerging market giants*, Marcos Chamon, Paolo Mauro and Yohei Okawa (2008)
- 9 *Playing our strongest hand: maximising the UK's industrial opportunities*, CBI (2012)
- 10 UK car manufacturing achieves all-time record exports in 2012, SMMT (2012)
- 11 *Jobs and growth: the importance of engineering skills to the UK economy*, Royal Academy of Engineering (2012)



March 2013

© Copyright CBI 2013

The content may not be copied, distributed, reported or dealt with in whole or in part without prior consent of the CBI.

Product code: ECO_ECO_401

For further information about CBI work on industrial strategy or a copy of this report in large text format, contact:

David Leach
senior policy adviser, industrial strategy
T: 0207 395 8260
E: david.leach@cbi.org.uk