

WAF AutoLink

Presentation on UK vehicle production

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UK automotive impacted by uncertainty over EU trade deal and COVID

<p>Early 2020 view</p> <ul style="list-style-type: none">• Base Outlook, with minimal coronavirus impact, expected 2020 UK production down from 1.36m to 1.34m, with full year of new Juke, Mini EV and Vivaro, plus new Qashqai in Q4• Assumed that a Trade Deal with EU would be agreed for 2021	<p>Things turned out rather differently</p> <ul style="list-style-type: none">• COVID impact much worse than expected• UK factories closed from mid March to at least late May• Variable ramp-up rates from June• In July we expected c883k cars, c947k inc. LCVs – now expect total UK production will be c997k...
<p>Risk of No FTA remains ...</p> <ul style="list-style-type: none">• Reports and leaks vary greatly ... looks like there will be a deal, but translation and ratification procedures risk accidental no deal• Not just debates about fishing allocations• No FTA would seriously impact UK auto manufacturing	<p>European perspective</p> <ul style="list-style-type: none">• 2019 total including UK, just under 20m• 2020 will be 14.6-15m – c25% decline• 2021 will NOT see recovery to 2018-19 levels; recovery by 2024/5 likely• COVID-19 still not under control, lockdowns remain widespread, cases rising• When will Europe-wide vaccination occur?

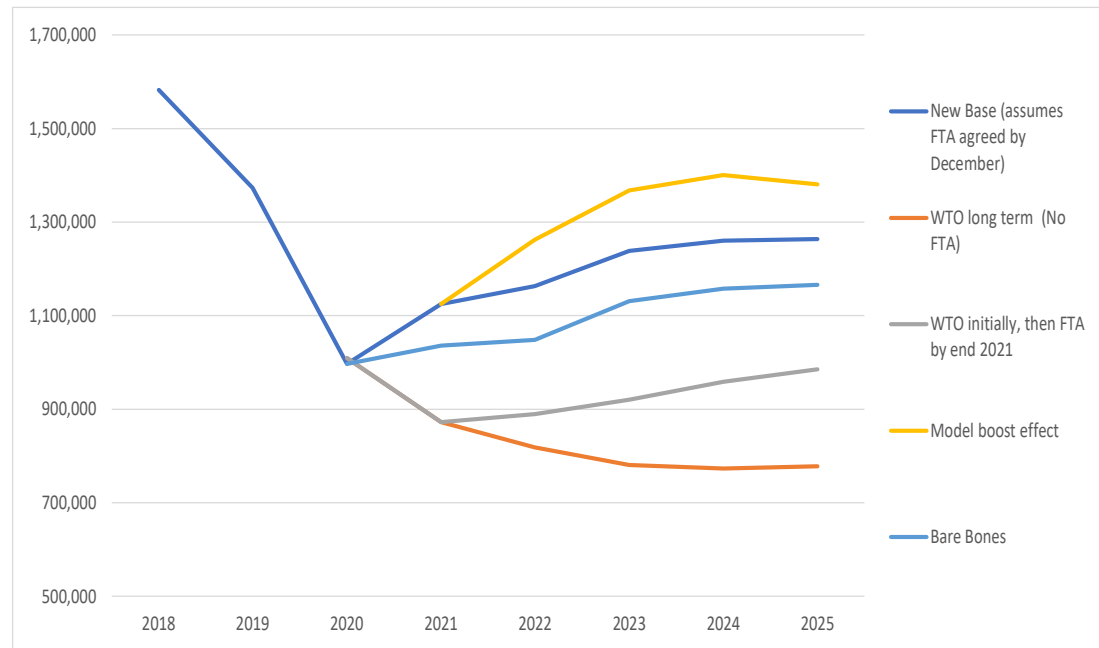
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UK production is falling ...

No. 3 position in European rankings lost, probably forever; Honda and Nissan decisions in 2019 have taken minimum 225k pa out of UK production potential

- Base Outlook (**blue**) assumes Zero Tariff, Zero Quota trade deal agreed for 2021, with full UK-EU cumulation for Rules of Origin requirements
- Remains possible that UK-EU trading in 2021 will begin on WTO terms, ie with tariffs on cars each way: but **will this be permanent, or just short term?**
- Long term trading on WTO terms (**red**) would render volume UK car production increasingly uneconomic, especially for models heavily dependent on EU sales
- **Production could quite quickly trend below 800,000 pa**
- In a No Deal Brexit with long term switch to WTO terms, AutoAnalysis expects Vauxhall Ellesmere Port to close; other factories will lose model lines & market allocations, reducing UK production volumes, factory output value and exports:
- **Long term switch to WTO would mean loss of c2m units production between 2021-25 against Base Outlook**
- **Worth c£55.4bn at factory gate prices ...**
- Even short term WTO trading and FTA agreed within 18 months will likely mean loss of 1.9m vehicles and factory gate loss of c£39bn: as negative decisions re UK investment and model allocations will be made quickly
- New model boost (**orange line**) requires zero tariff/zero quota arrangement, full cumulation **and** new models at JLR, possible BMW models made in Oxford, retention of Ellesmere Port, no loss of market allocation for Toyota and Nissan; it could happen, but seems unlikely right now!

UK production scenarios post Brexit



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A few bright spots ...

... there are some ...

- Nissan has confirmed Qashqai will be made in UK from some point in 2021, delayed from October 2020:
 - Although Nissan CEO has warned that tariffs would make UK business unsustainable
- Suzuki Swace in production
- LEVC van confirmed
- Aston Martin launched DBX and will gain Mercedes technology in future – Wales is AM's centre of competence in electric vehicles
- New Mini programme confirmed from 2023 – for Germany ... and hopefully UK soon, details for UK to be confirmed
 - And BMW will move large V8/V12 ICE engine production to the UK ...!

Questions/concerns:

- Hopefully JLR review will mean Castle Bromwich conversion for EVs proceeds, although EV production launches already delayed 6-9 months
- Still waiting on PSA decision re Astra at Ellesmere Port
- INEOS project now going to France

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European dependency on UK market

A serious issue for Germany and Spain ... and Ford especially

- UK sales from 75 European plants analysed
- Overall, UK imports in 2020:
 - 24% from Germany
 - 18% from Spain
 - 8% from Czech
 - 7% from France
- 23 plants send over 15% of output to the UK
- 12 send 10-15% - over 40% of European factories have >10% dependency on the UK

- Ford especially dependent on UK:
 - 39% Cologne output for UK
 - Saarlouis: 25%
 - Craiova: 21%
 - Valencia: 13%
 - Reflected in 3 Ford cars in UK top 10!

European perspective

Sales and production down across the region – just as in UK

- Total 2020 European production will be down 25% from 2019, c15m maximum
- Recovery will take until 2022 and beyond to take hold
- Virus spread, economic shock will continue through H1/2021
- It is unrealistic to expect widespread COVID vaccine availability until H2/21 at best

- Governments across Europe have supported auto and other industries in similar ways to the UK: furlough or short time working support, business grants etc
- Scrappage schemes in France, Spain and Italy to boost demand, especially in EVs, despite lack of EV output
- Germany also subsidising EV sales, but without scrappage incentive; 6k euros from government, 3k euros from VM

European VMs EV plans

Despite COVID and economic dislocation, European VMs are expanding EV activity

- VW – announced 60bn euros commitment ...
 - ID3 launched this year, with at least four more ID models within 3 years
 - 3 VW and all Audi Germany plants switching to wholly or mainly EVs
 - Licensing MEB platform to Ford
 - Renault converting Douai to full EV production
 - PSA offer electric versions on all new models – and use same technology at FCA
- BMW investing 400m euros in Munich factory for i4
 - Each BMW factory will make minimum 1 EV by 2022 – and probably more ...
 - ICE production will switch to Austria and UK!
 - Mercedes' EQ range – EQA, EQB, EQC, EQE, EQS and EQV nearing completion ...
 - Tesla factory in Berlin SOP 2023

UK Government policy...

Impact of ICE and hybrid bans from 2030 and 2035 will be profound

- **But VMs' responses wrt manufacturing will depend on EU trade deal**
- With No Deal and without UK battery and EV components manufacturing “at scale”, making EVs in for EU markets will be uneconomic:
 - Imported battery cost, tariffs, and increased logistics costs will all mean a major disadvantage for UK
 - No Deal would mean very limited UK production line-up in future
- EU FTA essential to attract investment in batteries and associated supply chains:
 - **And to maintain export business for EU ...**
- Government policy re ICE cars will undoubtedly change consumer behaviour – **but whether consumers will have a choice of UK-made EVs is another matter...**
- Bentley has already committed to full EV future but much more will be needed to maintain UK manufacturing in EVs.

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In summary ...

2020 has been a challenging year – and uncertainty prevails ...

- Production falling to <1m
- FTA with EU for 2021 and beyond should allow UK output to climb back above 1.2m, well below past peaks:
 - FTA with EU should enable existing UK manufacturing to plan a way forward, including EV investment ... but:
- No FTA will see production fall significantly – **and likely loss of factories and supply chain companies**
- Tariff burden on components for UK factories could be as much as £480m from EU, with c£1.5bn on vehicle exports to EU – **but that would be with an unchanged manufacturing line-up:**
 - ***Imposition of tariffs will see rapid changes in UK manufacturing ...***