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# WRITTEN STATEMENT

# BY

# THE WELSH GOVERNMENT

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| **TITLE** | **Automotive Sector** |
| **DATE** | **7 March 2019** |
| **BY** | **Minister for Economy and Transport** |

The Welsh Automotive sector is a vital part of both the Welsh and the UK’s economy. Employing nearly 19,000 people in Wales, MAKE UK (formerly the Engineering Employers Federation) identified the sector as having the 3rd highest contribution to UK Automotive GVA when compared to the English regions and other devolved nations. With 40 tier one system and component suppliers across passenger, commercial and off road sectors, over a hundred supply chain companies and 2 engine plants producing just over 30% of the 2.7m engines produced in the UK, the sector in Wales is also a vital part of the UK supply chain.

The sector, which until recently had seen several years of growth, is however experiencing a period of change unprecedented in recent times. Major technological change; the impact of stronger environmental standards and events such as the VW emissions scandal are fundamentally re-shaping the industry.

Diesel usage restrictions in major cities around the world, future bans on the sale of new petrol and diesel vehicles and the acceleration of hybrid and electric propulsion technology are impacting on manufacturing trends. Registrations of new diesel cars fell by 30% in the UK in 2018 and diesel’s share of the UK passenger car market dropped by 10% between 2017 and 20181. Over the same period, car production in the UK fell by 9% to a new five year low2.

It is against this backdrop of profound change that major decisions are being taken by manufacturers about future investments. The additional uncertainty and potential for new tariff and non-tariff barriers, frictions and costs, associated with a Brexit outcome in which the UK leaves the Single European Market and Customs Union means that Wales and the UK is further disadvantaged when key investment decisions are being made and is exactly why the threat of a no deal Brexit is so damaging to the automotive industry in the UK. For a sector so heavily dependent on European wide supply chains and markets, there is added risk in making long-term commitments to operations in the UK while our future relationship with the EU is still uncertain. Many of these manufacturers have announced some form of temporary cessation of production in the event of a no deal Brexit.

We have also seen the postponement of a major investment programme by Nissan and the recent closure announcement by Honda. The recently agreed EU – Japan trade deal which will eliminate virtually all trade tariffs between the two parties, may have played a part in the decisions by Nissan and Honda and could well impact on more Japanese owned companies in the EU in time. While we cannot insulate the Welsh automotive sector from these global forces, the Welsh Government is not standing still.

Thanks to strong work by the Welsh Automotive Forum who we work very closely with, we have undertaken a risk assessment of the sector, identifying those companies potentially under greatest pressure from these global forces. This enables early engagement of these priority companies and a channelling of resources.

We of course work with companies in the sector on an almost daily basis, assisting them in a number of operational and strategic areas including investment plans, training needs, competitiveness issues and export market requirements for example.

Annual events such as our own Autolink, the Society of Motor Manufacturers and Traders’ (SMMT) Automechanika and Cenex organised by the Low Carbon Vehicle Partnership give our companies the opportunity to hear from industry experts about the direction of travel for the sector. Participants also benefit from meeting a variety of industry contacts including OEM’s, policy makers, universities and customers.

These industry focused occasions are also used to target supply chain opportunities through meet the buyer events, enabling Welsh suppliers to engage directly with potential new customers. Our own activity in this area has presented opportunities from the likes of Aston Martin, Lear and Honda (well before the closure announcement) and this work will continue.

We are also encouraging companies to look at opportunities to supply into the developing electric vehicle supply chain. Discussions are taking place with Warwick University’s Warwick Manufacturing Group – a focus for the development of electric vehicle technology – to bring their Ready for Electrification team of industry experts to Wales to help companies become part of this emerging supply chain.

We have also highlighted funding opportunities to develop electric vehicle technology as part of the UK Government’s automotive sector deal. Events focusing on the Faraday Challenge, Driving the Electric Revolution and Innovate UK technology calls have been held in Wales.

Many of these longer-term opportunities we are exploring in the context of the Welsh Government’s Tech Valleys Programme, the £100m programme of investment we have developed to make Blaenau Gwent and the wider Valleys a globally recognised centre for the development and delivery of emerging technologies, particularly in the automotive sector.

The transition that the automotive sector is experiencing at present will potentially bring opportunities in the form of new investors, bringing technologies and products to satisfy the sector’s emerging requirements – but only if the UK Government secures a future trading relationship with the EU that keeps the UK automotive sector competitive.

Our inward investment activity will continue to identify potential projects for Wales in this and other sectors in these challenging times. It was hugely encouraging that Aston Martin chose Wales to be the home of their electrification programme and we are working with them on the additional supply chain opportunities that this may bring.

We are in discussion with a number of potential investors in electric vehicle technology but competition is fierce. The recent announcement by the German and French Governments of their intention to invest €1 billion and €750 million respectively in a fund for battery cell production gives a scale of the challenge we face.3

The UK Government’s industry partnership body, the Automotive Council is playing a lead role in guiding the future direction of the sector in areas such as technology, supply chains and funding. We have worked to ensure that we have Welsh presence on the industry working groups set up by the Council. At official level we also meet regularly and work closely with the BEIS and DIT automotive sector teams on issues and projects.

To help the work of attracting new companies and technologies and transitioning others, we must continue to develop, utilise and promote assets that can play a part in this journey. The Compound Semi-Conductor Applications Catapult together with the Institute for Compound Semiconductors provide a unique UK capability, in an area of technology that will be critical to future mobility. With academic expertise in other areas such as battery and fuel technology, catalysis and materials technology amongst others, Wales can play a significant part in the future development of the sector.

These are challenging times indeed for a sector that, as I mentioned is so dependant on the free movement of goods, services and people. With the uncertainty surrounding the future of such trade, together with the Welsh Automotive Forum, we have encouraged companies to participate in a number of sector focused Brexit awareness and workshop sessions, facilitated by a leading consultancy firm and the SMMT. We have also promoted the Business Wales Brexit portal and the Brexit Resilience Fund to help companies in the sector plan as best as possible for the as yet unknown.

As I mentioned, we cannot insulate companies in Wales from the global forces driving change in the sector. We can however continue to urge the UK Govt. to agree a deal that gives our automotive and other manufacturing companies the best possible chance to continue to compete in this global industry that is vital to the UK and the Welsh economy. We will also continue to listen to and work with the automotive and other sectors as they face increasingly challenging times.

1 [SMMT Diesel Registrations 2018](https://www.smmt.co.uk/2019/01/fall-in-new-car-market-wake-up-call-to-policy-makers-as-environmental-goals-at-risk/)

2 [SMMT UK Car Production 2018](https://www.smmt.co.uk/2019/01/uk-automotive-on-red-alert-as-no-deal-threat-sees-manufacturing-and-investment-plummet/)

3 http://www.libertyplugins.com/blog/2019/02/26/germany-and-france-to-invest-1-75-billion-euros-to-accelerate-battery-cell-production/