



**Navigating Brexit in the Automotive Sector**

July 2017

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# Brexit - What do we know and what can we expect?

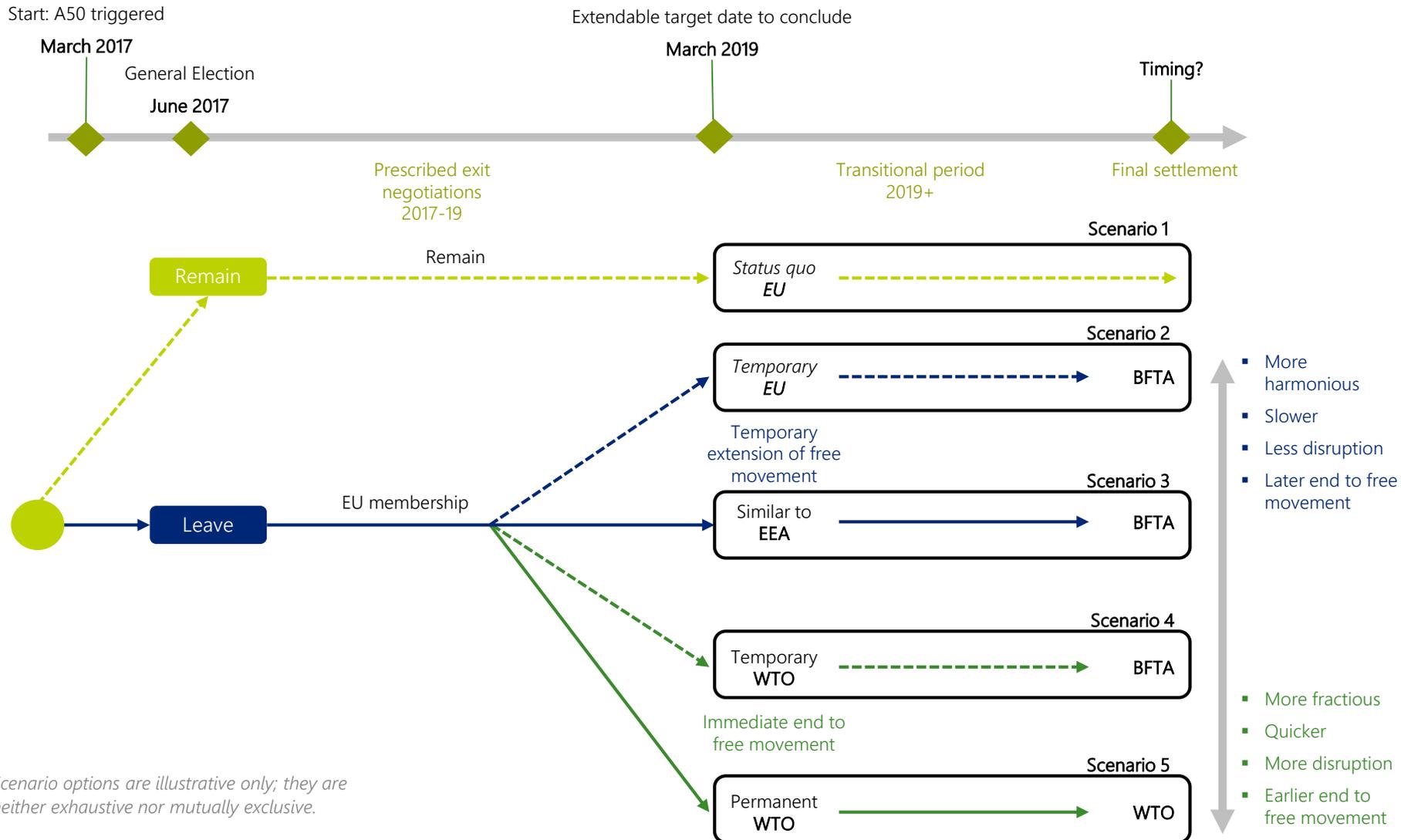
# The UK-EU settlement for Brexit will be a trade-off between bilateral trade and mobility

		<b>EU member</b>	<b>EEA</b>	<b>EFTA</b>	<b>FTA</b>	<b>WTO MFN</b>	<b>Customs Union</b>
		<i>28 European member nations</i>	<i>Norway, Liechtenstein, Iceland</i>	<i>Switzerland</i>	<i>Bespoke</i>	<i>Australia</i>	<i>Turkey</i>
<b>Free movement of goods, services and capital</b>		Yes	Yes	Yes	Some	No	No
<b>Free movement of people</b>		Yes	Yes	Yes	No	No	No
<b>Free to negotiate trade deals and set tariff levels with non-EU countries</b>		No	Yes	Yes	Yes	Yes	Limited
<b>EU laws and regulation</b>	<b>Influence</b>	Yes	Very limited	No	No	No	No
	<b>Compliance</b>	Yes	Yes	Yes, but some opt-outs	Possible	No	Some
<b>Fiscal contributions</b>		Yes	Yes (83%)	Yes (52%)	No	No	No
<b>Common agricultural policy</b>		Yes	No	No	No	No	No

\*Options neither exhaustive nor mutually exclusive

Source: Deloitte Economics & Markets Team, 06/07/16

# Article 50 was triggered in March 2017, but there are significant areas that still need to be resolved in terms of leave options and outcomes



## As the automotive sector considers how to respond, there are a number of questions that leading companies need to consider

- Where do I manufacture the next new model in Europe?
- How could the UK Government support my plant/investments?
- What is the impact on my R&D sites?
- What will happen to my EU grants for research (e.g. electrification, alternative fuel sources, etc.)?
- What will happen to my associates from mainland Europe and those with non-EU visas?
- How can I attract new talent from overseas?
- What are the opportunities to exploit potential new trade agreements?
- How will passporting rights affect my captive finance operations?
- How will my current processes and systems accommodate the additional reporting complexity required?
- Will this impact where my data is used or hosted?

**What are the implications for the automotive sector?**

# Brexit and the ensuing uncertainties have a number of implications for the UK and Europe (1 of 2)



## EU Instability

- Sterling weakness makes Eurozone exports expensive in the UK (the biggest destination for EU exports), which could lead to imported inflation, whilst imports from Britain become more attractive. Consumer behaviours could shift quickly, EU-based retailers should prepare for much stronger competition from the UK.
- Major investments into the UK may be put on hold as price volatility influences decision-makers. Currency fall may impact on contracts with FX exposures, increasing risk between counterparties. Short-term shockwave for decisions on investment in UK assets can impact where to build infrastructure. Decrease in UK asset price may provide acquisition opportunities, for example in the London real estate market.
- High risk of increased Eurozone instability, which may increase momentum for Grexit. Financial markets may face unpredictability and increase pressure on Italy's low-value-to-high-liability banking sector.



## Operations

- High possibility that companies will consider relocating HQs from Britain to Europe.
- The UK is a key stepping stone into Europe for a number of non-European organisations. Without single market access and free movement, operations could be impacted immediately, especially those heavily linked to issues with work permits. This is likely to disrupt current recruitment plans, for example, hurdles for Japanese employees and intra-corporate transferees working in the UK for a global or EMEA-focused firm.
- Questions over data security, including a potential ban on transfer of data between UK and EU. Data centres providing exchange with the US might be moved from the UK to the continent.
- Market volatility may force reconsideration of suppliers. Consumers may make a switch *en masse* from UK to continental online traders or the other way round, based on sentiment or in view of cheaper pound and/or customs duties.
- Redesign of operating models for a number of international firms who do business within the UK to deal with new tax arrangements, supply chain complications and cash flow implications.



## Political / Security

- Governments may encounter increased domestic scepticism about the EU and face pressure to follow a UK-type referendum on EU membership, an example being the rise of the 5 Star Movement in Italy. There are, however, some signs of EU consolidation as exemplified by a recent reduction in Danish EU exit sentiment.
- Concern regarding pan-EU issues, including security. Potential difficulty in utilising Britain's world-leading security services and providers now that UK falls outside EU management systems.

# Brexit and the ensuing uncertainties have a number of implications for the UK and Europe (2 of 2)



## Tax, trade and investment

- Increases in UK tariffs would have serious impacts on pricing and inflation across Europe – new markets and new trade partners likely to follow (UK less desirable trade partner).
- EU trade with UK could take Singaporean approach (as UK not legislated by MiFID 2).
- Following changing UK tax landscape, European countries are likely to change their own tax rules in an effort to attract business.
- It is likely that Brexit would have a direct impact on the divergence of tax rates between the UK and the EU and of personal and indirect tax systems.
- M&A activities are likely to stagnate for a number of years and a reduction in the value of assets held in the UK could lead to organisations divesting these assets in favour of new assets in continental Europe.



## Free movement of people and goods

- Any organisation currently benefiting from the free movement of goods within the EU would have to re-consider their operating and sourcing models to maintain cost and time efficiency – loss of economies of scale should be considered.
- Re-domiciling away from UK and into EU requires investment and long-term planning.
- Increase in supply risk across Europe, caused by UK talent shortage – loss of free movement of people could prevent organisations from accessing the skills and talent which they require for growth.
- Drop of revenue from tuition fees for UK universities.
- Business travel and residence for secondments between UK and Europe could be hindered by the time and cost associated with more complex border procedures, obtaining visa and residence permits (which in turn might lead to a potential increase in virtual working).



## Preferential Origin

- One of the most tangible customs consequences of a Brexit will relate to the applicable customs tariff when OEM imports goods from the UK into a third country (EU or others). This customs tariff will depend on the agreements made and the position taken by the UK after Brexit.
- After Brexit, the determination of non-preferential origin becomes more important and more complex in relation to the trade between the UK and the EU. The import flow from the UK to the EU or vice versa could become subject to new market access restrictions and trade barriers. The UK or the EU could implement an anti-dumping/anti-subsidy policy on imports from the EU or the UK. With regard to the determination of non-preferential origin, the EU and the UK will be two separate worlds that necessarily will interact. This interaction will influence the non-preferential origin determination rules.

# We believe Brexit will have implications across a number of dimensions in the automotive sector

## Labour / Talent

Potential restrictions to free movement of EU nationals likely to make it more challenging to attract and retain talent in UK market, and also to rotate staff. Future placement of R&D programs may also be influenced by reduced talent pool.

## Preferential Origin

If the UK agrees preferential trading terms with EU then it will need to document the origin of products into and out of the UK which will add significant complexity to supply chains and reporting.

## Tax

Direct tax effects dependent on HQ location, so less of an issue for companies headquartered outside of UK. Exiting the EU removes some restrictions on tax incentives used to attract manufacturing and investment to the UK.

## Data Transfer

Potential restrictions on data transfer between UK and EU, particularly customer data. If UK does not become a trusted entity or pass new privacy laws that meet EU regulations, companies will need to consider storing data in EU data centres.

## Trade

Import and export tariffs depend on the trade agreement concluded. See possible outcomes on slide 4 for more detail. Companies should expect practical changes in import and export formalities, ERP & IT systems and customs valuations.

## Market Outlook

Potential for a slowdown in the UK and wider European economies have potential to impact future market demand in UK. Potential backlash against UK products in Europe.

## Standards certification

Standards and legislation defined at EU level may need to be reviewed and refined following Brexit, potentially requiring UK firms to comply with different standards of destination countries.

## Funding

R&D funding from European sources likely to be cut or disrupted, with impact on current programs (e.g. Electrification of cars). Future UK participation in EU research programs less likely, unclear how UK government will replace this.

## Transfer Pricing

Sales transactions between UK and EU entities may need to be re-evaluated, with transfer pricing potentially subject to customs value adjustments and corrections.

## FX

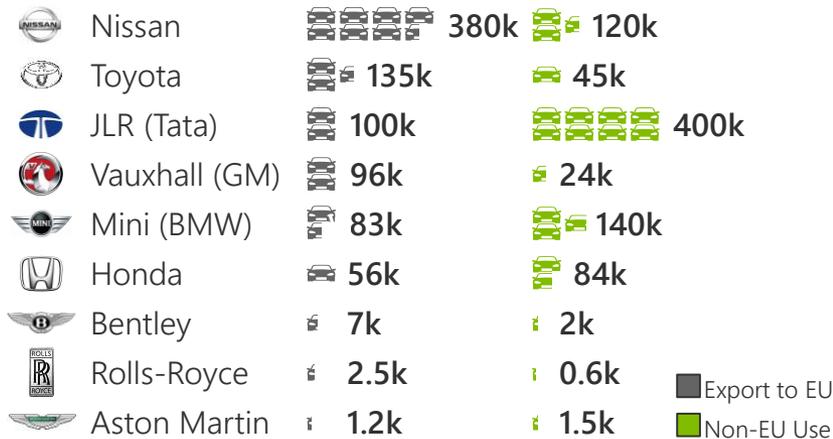
Weakening of Sterling against Euro, Dollar and Yen will benefit exports but increase cost of imported components. Heightened volatility prior to final agreement may impact longer term strategic choices.

# A key question concerns future agreements around tariffs and customs duties that will impact OEMs exporting / importing into the UK

## Exported from UK

- Total cars manufactured in UK 1.8M

### UK Car Production (Thousands, CY16)



### UK to Europe – engine production exports (Thousands, CY16)



### UK plant – car models produced\*

Vauxhall (GM)	Astra
Honda	Civic, CR-V
Toyota	Auris, Avensis
Mini (BMW)	MINI Clubman, Coupe, Roadster
Nissan	Juke, LEAF, Note, Qashqai, MICRA, X-Trail
JLR (Tata)	F-Type, F-Pace, XE, XF, XJ, Defender, Discovery, D. Sport, Evoque, Range Rover

## Imported into UK

- Total UK Car sales 3.07M (CY16)
  - Over 1.75M cars imported into the UK
- German OEMs sell over 750k cars, worth over £25Bn in the UK, all imported
  - Volkswagen 209k
  - BMW 182k
  - Audi 177k
  - Mercedes Benz 203k
- French OEMs sell an additional 330K into the UK, worth approx. £5Bn
  - Peugeot 132k
  - Citroen 90k
  - Renault 110k

- Other OEMs with EU manufacturing also sell significant numbers into the UK
  - Ford 436k
  - Hyundai 92k
  - Kia 89k
  - SEAT 47k

\* All models produced by Bentley, Rolls-Royce and Aston Martin are produced in their UK plants (except some models occasionally made by VW for Bentley in Dresden).  
Source: FT, CarMagazine, SMMT, Credit Suisse, Deutsche Bank, Morgan Stanley Research, Macquarie, JP Morgan Cazenove, IHS, Deloitte Analysis

## Brexit and upcoming negotiations around trade agreements will also influence OEM decisions on where to manufacture future upgrades

	Factory location choices likely to have been made			Decisions yet to be made				
	2017	2018	2019	2020	2021	2022	2023	2024
Honda	CIVIC/ CR-V						CIVIC	
Vauxhall					ASTRA		MPV	
Mini		COUNTRY MAN				CLUBMAN	MINI	
Toyota		AURIS/ AVENSIS				AURIS		
Nissan	LEAF/ JUKE	NOTE		QASHQAI	INFINITY Q30			
Jaguar	XJ				F-TYPE	XF/XE	F-PACE	XJ/XJR
Land Rover		EVOQUE	NEW DEFENDER	RR SPORT		DISCOVERY SPORT		EVOQUE/ DISCOVERY
Bentley		BENTAYGA/ CONT. GT			FLYING SPUR			
Rolls-Royce	CULLINAN	PHANTOM				GHOST	WRAITH	
Aston Martin	DB11	DBX				VANQUISH	LAGONDA	

How can we help?

# Deloitte is engaged with policy makers and business leaders to understand and disseminate Brexit policy developments as they happen



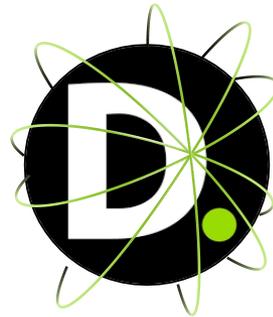
## At the heart of the UK govt

Our Public Sector Partners are in regular discussions with key influencers at the heart of government, across the public sector as well as directly advising and engaging with senior stakeholders in the new government departments. Our UK policy teams engage with policy makers in London and Brussels to monitor and interpret any new UK & EU stances. These individuals feature as SMEs in our team.



## At the heart of the EU govt

The Deloitte EU Policy Centre in Brussels brings together EU public affairs and regulatory specialists and representatives from Deloitte firms in several key European countries. It manages our relationships with European institutions, member states' representatives in Brussels and other EU stakeholders (professional associations, business associations, think tanks). Through the centre we also work with external political advisors, including a German former MEP and an Irish former Minister for Europe.



## At the heart of business

We serve 80 per cent of the 36 largest automotive companies in the Fortune Global 500 list and are talking to European and global leaders of these companies to understand the implications and choices to be made following the Brexit vote. We are also contributing to the debate through industry papers and briefings. The Deloitte quarterly CFO Survey is firmly established with media and policy makers as the authoritative barometer of UK corporates' sentiment and strategy.

# We are working with clients across a range of industries to understand and navigate the potential implications of Brexit

Industry	Nature of implications being considered	How are we supporting clients in these Industries
 <p>Financial Services</p>	<ul style="list-style-type: none"> <li>• Need for location presence in EU</li> <li>• Free movement of capital</li> <li>• Movement of labour</li> <li>• Data transfer across geographic boundaries</li> </ul>	<ul style="list-style-type: none"> <li>• Assisting a major European bank to understand scenario impacts and the need for expanding EU presence in advance of any 'passporting' resolution.</li> </ul>
 <p>Airline Industry</p>	<ul style="list-style-type: none"> <li>• UK outbound leisure to continental Europe</li> <li>• 'Open skies' market access / travel between UK and EU nations</li> <li>• Regulatory cost impact on flight fares</li> <li>• Market structure and airline HQ locations</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of post-Brexit implications of UK access to European airspace and how it might impact the wider UK aviation industry.</li> </ul>
 <p>UK Govt Department</p>	<ul style="list-style-type: none"> <li>• Tax implications</li> <li>• Prohibition of data flows</li> <li>• Tariffs</li> <li>• Regulatory duplication</li> </ul>	<ul style="list-style-type: none"> <li>• Developing the UK's post-referendum action plan and trade policy.</li> </ul>
 <p>Private Equity</p>	<ul style="list-style-type: none"> <li>• Portfolio configuration strategy</li> <li>• FX impacts around UK/EU investment (cheaper assets) and divestment (trading at a loss)</li> <li>• Change in fundraising conditions (e.g. cost to borrow)</li> </ul>	<ul style="list-style-type: none"> <li>• Conducting scenario analysis on Brexit's Eurozone impact in relation to potential investment/divestment opportunities.</li> </ul>
 <p>Professional Services</p>	<ul style="list-style-type: none"> <li>• Movement of labour</li> <li>• Data transfer across geographic boundaries</li> <li>• Future trade outlook</li> </ul>	<ul style="list-style-type: none"> <li>• Pan-EMEA simulations and wargame workshop.</li> </ul>

# We have developed a three-step approach to help clients in the automotive sector understand and navigate their way through Brexit

Project Timeline



## 1) Business Intelligence

### a) Scope Requirement

- Tailor multi-dimensional, agile approach to suit Client's specific needs
- Agree weekly deep dive with Deloitte SMEs (economics, trade, mobility tax, ...)
- Complement with timely ad-hoc insight in response to developments as required

### b) Specify granular content

- Macroeconomics
- Generic policy issues
- Automotive-specific policy issues

### c) Deliver

- Feedback
- Refine
- Use

### Deloitte Domain SMEs



### External SMEs



## 2) Scenario Simulations with Brexit Lab workshops

### a) Initial Brexit Lab Workshop

- Work with existing Deloitte 'end-outcome' scenarios
- Augment with business intelligence from Stage 1
- Apply short-, mid- and long-term lens
- Using digital forum software to support input and engagement
- Develop 4 tailored scenarios incorporating Client-relevant factors

### b) UK-focused Brexit Lab Workshop

- Deep-dive sessions aimed at Client-specific issues such as FX, tariffs, freedom of movement, and competitor reactions
- From UK perspective (i.e. looking out)

### c) EU-focused Brexit Lab Workshop

- Deep-dive sessions aimed at Client-specific issues such as FX, tariffs, freedom of movement, competitor reactions
- From EU perspective (i.e. looking in)

### d) Initial synthesis and reporting



## 3) Impact Assessment

### a) Assess high level implications

- Use workshop outputs to develop Brexit diagnostic map highlighting scenario impacts on footprint, supply chain, production, sales, and others
- Test existing strategy against Lab outputs & diagnostic map
- Develop initial recommendations

### b) Assess more detailed financial impact

- Financial modelling of scenarios
- Bottom-line impacts

### c) Formulate strategic choices

- Consider how Client can win in each scenario
- Identify commonalities across different strategies - 'No regret' decisions
- For scenario specific choices
  - Consider how to build in optionality
  - Identify trigger points that indicate likelihood of different scenarios

Analytical  
Depth

# We have assembled a cross-functional team that combines automotive industry experience with technical expertise and local country insight

## AUTOMOTIVE BREXIT TEAM



Michael Woodward  
mwoodward@deloitte.co.uk

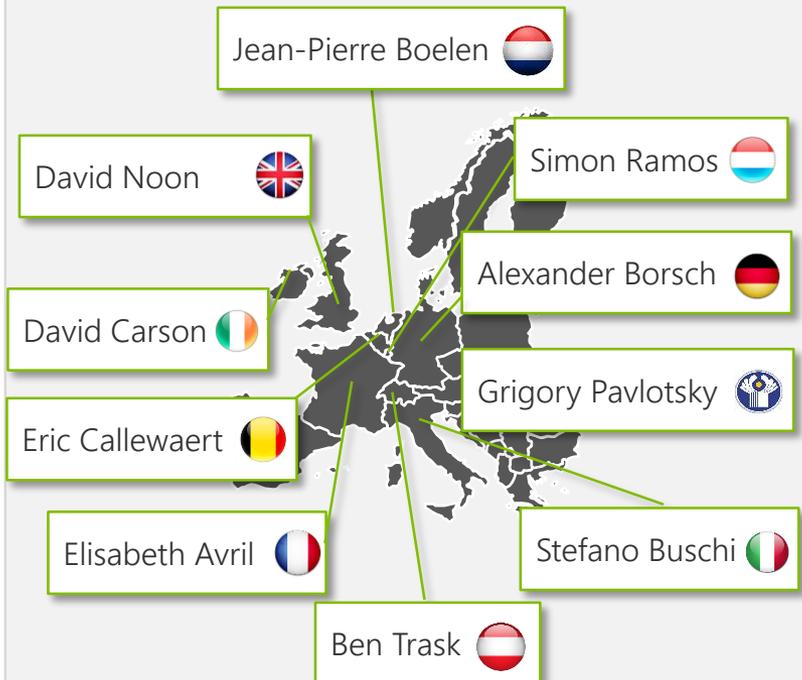


Jamie Hamilton  
jamihamilton@deloitte.co.uk

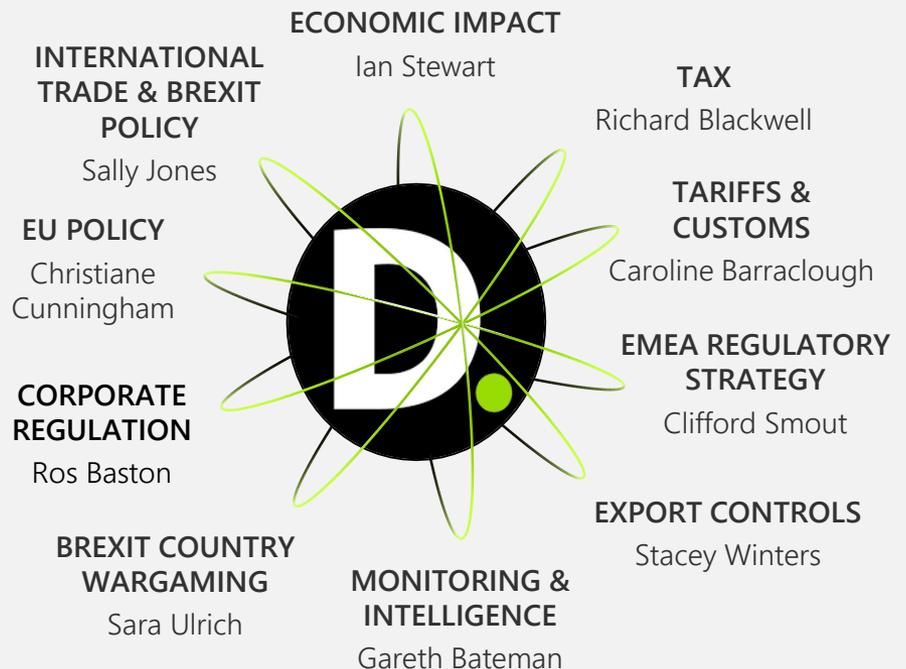


Andy Tong  
andrewtong@deloitte.co.uk

## BREXIT COUNTRY LEADS



## COMPREHENSIVE EXPERTISE





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