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Swindon pays the price of Honda's UK uncertainty

By Ian Worth

It is less than six weeks until the UK leaves the EU, with or without a deal as things stand, and less than three weeks since the EU's Free Trade Agreement with Japan entered into force.

Honda has today confirmed it will cease production of cars in the UK in 2021, at the end of its current production cycle. Manufacturing of future models will move to Japan. A similar announcement was made by Nissan, almost before the ink had dried on Japan's FTA with the EU. Doubtless other Japanese manufacturers in the UK are considering their position.

It may be helpful to reflect on the reasons for Japanese companies to manufacture in the UK, as well as manufacturers from other countries.

The UK has invested heavily in attracting overseas investment over the past four decades and has been widely seen as a facilitative manufacturing base.

For companies from countries without their own FTA with the EU, or a manufacturing base in the EU, careful structuring of their UK manufacturing operations has enabled their products to meet EU origin rules, thus enabling preferential treatment when those products were exported to countries which had a FTA with the EU.

The EU's Single Market also allowed those goods manufactured in the UK to move freely throughout the EU, which has supported the development of complex just-in-time supply chains, most noticeably in the automotive sector.

The EU / Japan FTA, which came into force on 1 February, is a game changer for manufacturers. It raises important questions about the benefits of manufacturing in the UK at a time when doubts about the UK's future trading relationship with the EU are prevalent and continue to fuel uncertainty.

As a member of the EU, the UK is currently party to the EU / Japan FTA, so goods traded between Japan and the UK can do so without the burden of customs duty, so long as they meet rules of origin.

When the UK leaves the EU, it also leaves all the FTAs which other countries have agreed with the EU, and faces the task of negotiating new trade deals to replace those lost.

Qualifying UK goods exported to Japan will benefit from the FTA but only while the UK is still in the EU. This means they must arrive in Japan no later than 29 March – already impossible for sea shipments which have not already left.

These moves by Japanese manufacturers ensure the certainty of duty-free imports into the EU market for their goods. While both Honda and Nissan have said their decisions have been driven by factors other than Brexit, the timing of their announcements adds fuel to the arguments that a large portion of blame must be borne by the failure of the UK to provide certainty to its manufacturers over Brexit. The EU / Japan FTA, together with the announcements from Honda and Nissan, provides a reminder that a no-deal Brexit will immediately terminate the UK's participation in current EU FTAs. Not just with Japan but also many other countries whose companies have established manufacturing operations in the UK, the benefits of which will simply evaporate on March 29.