

Business and Trade Committee

Oral evidence: Industrial Strategy, HC 727

Tuesday 22 April 2025

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Watch the meeting

Members present: Liam Byrne (Chair); Antonia Bance; John Cooper; Sarah Edwards; Alison Griffiths; Sonia Kumar; Charlie Maynard; Gregor Poynton; Mr Joshua Reynolds; Matt Western.

Energy, Security and Net Zero Committee member also present: Bill Esterson (Chair).

Questions 492 - 535

Witnesses

[II](#): Dr Markus Grüneisl, Chief Executive Officer, BMW (UK) Manufacturing Ltd; Steve Turner, Assistant General Secretary, Unite the Union; Alan Johnson, Senior Vice-President for Manufacturing, Supply Chain and Purchasing AMIEO, Nissan Motor Corp; Mike Hawes OBE, Chief Executive, Society of Motor Manufacturers and Traders.

Examination of witnesses

Witnesses: Dr Markus Grüneisl, Mike Hawes, Alan Johnson and Steve Turner.

Q492 **Chair:** Welcome to the second panel of today's session of the Business and Trade Committee as we look into industrial policy in this country and the impact of tariffs on the automotive sector. Mike Hawes, perhaps I could start with you. What are your members telling you about the impact of American tariffs on the UK automotive sector?

Mike Hawes: As you heard from the previous session, it varies from company to company. Where companies are affected directly, the impact is severe, significant and immediate. If you look across the UK automotive industry, 80% is exported. On average, 60% will go to Europe. For some manufacturers, that is the most important market. If you look at other manufacturers, specifically the small-volume, high-value ones, they are much more evenly spread. Somewhere between 30% and over 50% of their exports are going to the US.

Yes, they make high-value products. The assumption is that, if you can afford £200,000 for a car, you can afford £250,000 for a car. Those high-net-worth individuals did not become high-net-worth individuals without being shrewd. They can see what is happening. The impact is immediate because these cars are built to order. You cannot divert production somewhere else. If they see that their vehicle could be 25% more expensive, they will pause; they will hold off. It is a discretionary spend. They have a stable of five or six other cars. They can buy a yacht. They can buy something made in the US and less subject to tariffs.

You will see order books drying up immediately, and you will therefore see an impact on production planning equally being a clear and present danger.

Q493 **Chair:** We are looking at big deficits now opening up in a number of automotive firms. How soon will many of these firms need to start laying off workers?

Mike Hawes: Many of them tried to get inventory into the US first because, to a certain extent, you could see this coming. Again, it was the scale. For automotive, the 10% reciprocal under section 2 does not so much apply. It is section 232, which is an additional 25% on what was previously 2.5%. That is a total of 27.5%. You cannot absorb that. As we have just explained, you cannot pass that on to the market, even though their competitors generally will be subject to that 25%.

If you think of those brands, so Rolls-Royce, Bentley, Aston Martin and McLaren, we have a world-renowned stable of brands and we must do what we can to keep it. Their competitor set is not US-based manufacturers. It might be coming from Italy or elsewhere. More often than not, those customers buy all of them.



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The impact, as I said, is significant. You had a long discussion in the previous panel about skills. These are highly talented people. We cannot afford to lose them. You will do what you can to keep them because it takes a long time to build up those skills. Once they go, it is very hard to get them back again. They will be doing all they can. Initially, can you divert production to another market? It is very difficult because these cars are built to order. Can you sustain that level of employment for as long as possible until we get a deal? That just underscores the imperative of getting an urgent deal.

Q494 **Chair:** How long do we have before we start seeing layoffs?

Mike Hawes: Like I said, layoffs will be the last resort. It is more a question of weeks rather than months before you see some things like that. However, the key thing is whether we can get a deal. It needs to be a deal that supports automotive. I know there are other tariff hits coming down to other sectors that you will be looking at, no doubt, such as pharmaceuticals and so forth. As I said, the impact is now. That is why we need to make sure either we get a deal very quickly or there is a mechanism to support the industry in the coming weeks and months.

Q495 **Chair:** What does that mechanism look like?

Mike Hawes: You could look at a number of things. That could be any way of supporting employment. You could look again at furlough as a temporary measure.

Remember, this impacts the supply chain. The focus is on these vehicle manufacturers, but we need to keep the supply chain here as well. Volatile inventory requests are not something that it can sustain. Can HMRC be a bit more flexible? Can you look at NIC holidays or VAT holidays to help them bridge over this period, however long it is, until they can get there?

Underlying all of this is whether we are doing all we can to make the operating costs that they face as competitive as possible?

Q496 **Chair:** Do the Government have those plans in place today?

Mike Hawes: There is a sharp focus on it now. We have had these tariffs now for coming up to a month. The speed and severity with which they were applied and the impact you will be seeing means this is at the top of their priorities. Certainly, I was in DC a week before last. The conversations that I had, including with the UK embassy out there, made it very clear that automotive was top of their priority list.

Q497 **Chair:** Are Government standing ready with the support programmes that are needed if we do not get a deal?

Mike Hawes: Given how quickly this has happened, the first thing to do would be to assess the impact and see what would be most effective. The impact, as I said, will vary from company to company, depending on your exposure to the US market.



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Q498 **Chair:** Is it possible to estimate how much money might be needed to fund those support programmes?

Mike Hawes: It would probably be too early to say because there are too many other variables that you would want to explore first rather than just looking at money to support them.

Q499 **Chair:** Steve Turner, do you have a sense from your shop stewards and your members on shop floors around the auto industry about what kind of danger they feel they are in?

Steve Turner: Yes, they are in very real and immediate danger. It is the premium brand sector that is directly impacted by this, more so than general manufacturing or volume manufacturing. Most of the premium brand ends up exported. A lot of it ends up being exported to the United States. Some 25% of Rolls-Royces go to the United States. Markus will talk for himself, but 10% of BMW Mini ends up in the United States. Bentley and Aston Martin will be in a similar position. Those premium brands will be particularly vulnerable to this.

In the UK, we have banked hours arrangements more than furlough, which is present across much of our European competitor base. Banking hours is not sustainable in the long term. We have low-volume manufacturing across the entirety of automotive right now, which is a serious problem. That is creating problems for shifts and, therefore, layoffs or a reduction in working time. Traditionally in the UK, a reduction in working time in the auto sector has been addressed by banking hours, which means that you continue to get paid, but you owe hours back, and we are pushing on those limits right now. We have members who owe 300 hours, which they are never going to pay back. They could not pay back 300 hours. To push beyond that to deal with a temporary problem is not sustainable for our members. Therefore, we are seeing shift closures and the loss of agency workers and temporary labour in the first instance. We will try to defend them, but they are under threat right now, and some have gone already.

Q500 **Chair:** As we sit here today, the impacts are already being felt for workers.

Steve Turner: Yes, absolutely. They are already being impacted, although not so much on direct, but they will hit direct labour very quickly if we do not find a deal with the United States over the tariffs on autos. It is unsustainable. Even if it is Rolls-Royce and you are spending a lot of money on it, it is just not sustainable. JLR has already suspended all activity with the United States for a month. It exports over 100,000 vehicles a year to the United States. These are high-value vehicles. That is a huge percentage of its production in both Solihull and up in the north-west. It is going to be a particular problem in the north-west, the west midlands and the south-east, where there are plants that are directly related to high-volume export to the United States.

Q501 **Chair:** Markus, how are tariffs hitting your business?



Dr Grüneisl: We definitely believe in free trade, openness and global co-operation. Just to give you some numbers, 75% of Minis are exported; 92% of Rolls-Royces go abroad. To build a Mini, for example, I get 80% of the parts from foreign countries. It is a globally connected supply chain that needs openness of borders and free trade. We are in regular contact with the Department for Business and Trade, and we believe that it is the right approach to negotiate and find a solution on the table such as free trade benefits all customers around the world.

Q502 **Chair:** Mr Johnson, will tariffs hurt Nissan?

Alan Johnson: The Sunderland plant does not export vehicles to the US. We export some parts, but in relatively minor numbers, so the direct impact for the UK operation is small. As a global company with a significant business interest in the US, Nissan globally is impacted significantly by the tariff situation. It is more of an indirect issue for the Sunderland plant rather than a direct one.

Q503 **Chair:** There has been a conversation about whether the UK should put retaliatory tariffs in place on the United States. Mike Hawes, is that a good thing to do?

Mike Hawes: Not immediately, no. In conversations that we had in DC recently, the UK approach of emphasising remaining cool and trying to seek a deal has been the right one. Jumping immediately to retaliatory tariffs, or the threat thereof, does not respond well and, again, will lead to further tariffs elsewhere. The approach taken thus far has been the right one. Ultimately, though, you have to get a deal.

Q504 **Chair:** Let me just check whether there is a consensus across the panel. Mr Johnson and Mr Turner, are retaliatory tariffs a good idea?

Alan Johnson: No.

Steve Turner: It depends on how long this goes on for. If we do not find an early solution to this, we are going to have to react. Traditionally, bullies react only to a certain course of action. We are into free trade. We have no problem with free trade, but you have an interruption to free trade here with the United States, and so we are going to have to look at what we are going to do to protect ourselves.

We can take measures to protect the UK market. We can introduce the daughter of furlough to address the down shifts or the low volumes that there will be as a result of this. We can introduce all sorts of incentives to keep manufacturing here in the UK. Ultimately, we are going to have to retaliate if we do not find a trade solution to this, and that will be your Teslas, which is a big market here in the UK for a US brand that benefits from ZEV credits, as well as now from the import tariff situation.

Q505 **Chair:** Markus, what is your view about retaliatory tariffs?

Dr Grüneisl: We fully support the ongoing discussions and hope for solutions without any counter tariffs.



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Q506 **Chair:** Mr Hawes, do we need to take protective measures against trade diversion from China?

Mike Hawes: We are not seeing evidence yet of a significant increase in the last few months of Chinese-produced vehicles. Broadly speaking, Chinese-produced vehicles—and I use the term advisedly, because there is a difference between Chinese brands and Chinese-produced vehicles—account for about 10% of the UK car market. About half of that is Chinese brands, and they have been increasing steadily. Some commentators will say that there is a tsunami of Chinese cars coming in, but we are not seeing that yet. At the moment, what everyone would emphasise is the importance of free and fair trade in a highly competitive UK market.

Q507 **Chair:** Mr Johnson, do we need safeguards against trade diversion from China?

Alan Johnson: As Mike said, free and fair trade is the key here. At the moment, it is not necessarily free and fair. When it comes to Chinese-produced vehicles, we know that they get a significant subsidy from the Chinese Government. They get free entry into the UK in comparison to the European Union, for example, which has imposed tariffs, so it is an open door. From that point of view, as a manufacturer based in the UK, it is something that we would like to see addressed.

Q508 **Chair:** So it is not a level playing field right now when it comes to China, and we probably need to do something about that.

Alan Johnson: Yes.

Q509 **Chair:** Is that BMW's view as well?

Dr Grüneisl: We believe in the strength of our brands. It is difficult to copy a Rolls-Royce or a Mini. It is a British icon that we produce. We have to have advantages here from the perspective of cost competitiveness. Earlier we mentioned energy costs, labour costs, free trade agreements, and access to skilled, qualified people. That is our approach that we think makes a difference. We believe in the openness of the market, and we are strong enough.

Q510 **Chair:** Mr Turner, do you have any views about safeguards?

Steve Turner: As part of our strategy, we have to adapt our relationship with China. It sold 104,000 vehicles—mainly electric—in the UK last year. It dominates the top 10 electric vehicles sold. It dominates critical mineral refining. It dominates mining around the world. That impacts on our industrial strategy. If we want a cathode and anode strategy around not just the assembly but the manufacture of cells for batteries, and if we want to be in that high-value, high-tech area of the world, we need to develop our trade relationships. China is a key relationship in that.

Do we need a similar strategy to that we adopted with the Japanese in the 1980s and the 1990s? They want volume manufacturing. Can we



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offer a plant in the UK? Can we offer an incentive to manufacture here in the UK? That is something that we should consider.

It is not just the vehicle sector either. It is buses. They now have 10% directly of the UK bus market. We have just closed bus manufacturing. The old Optare site in North Yorkshire has just closed. Alexander Dennis is running on reduced volumes. These are UK bus manufacturers, and we are importing buses from China, which does not seem possible in my eyes and is certainly not right. We need to address that issue. Our relationship with China is something that we really need to develop a view on as part of the industrial strategy.

Chair: That is very useful. Thank you.

Q511 **Mr Reynolds:** Every week, it seems that China is bringing out a new EV that undercuts the UK market and is of significantly better quality than it probably would have been 10 or 15 years ago. Effectively, we, as western car manufacturers, have taught the Chinese how to manufacture EVs, and they are now doing it better than we are. How can we compete when the prices that they are coming out with are nowhere near those that we can manufacture and produce for in the UK?

Mike Hawes: First of all, I would disagree that they are necessarily better than what we produce. Colleagues to my left will probably sustain that. Undeniably, the Chinese automotive industry has grown phenomenally in the last 20 to 30 years. It has improved its design, its quality and its technology, and is very fleet of foot, which is giving it an advantage. That is good for the market, but it puts established European and UK companies under enormous pressure, as we heard from Alan.

What matters is trying, first and foremost, to make sure that we do things as competitively, efficiently and cost-effectively as possible. This is where we get into industrial strategy and the things that could be done about addressing the cost competitiveness of the UK manufacturing offering. You also have to look at the market. Like many customers, those in the UK still have a degree of brand loyalty. They will naturally gravitate towards brands that they have had before, and we should trade on that. We should also make sure that the market is as strong as possible, because it is not at the moment. We are still significantly below pre-pandemic levels, and a stronger market would be better for all.

Q512 **Mr Reynolds:** It is slowly happening. If you went back three or four years, you would never have seen a BYD showroom in Britain. Now you are, and they are becoming more and more common week by week. Steve, for you and your members, is that concerning?

Steve Turner: It is concerning. China is a growing and dominant force in the automotive sector, as it is in aviation. It will be the third major party in aviation by the end of the year as well. As I have said before, this is something that we need to address in terms of our relationship with China. The Chinese will want to build within the UK, or certainly within Europe.



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Do we want, like we did with Nissan and Toyota in the 1980s and 1990s, to adopt a very clear strategy to bring the Chinese into the UK with their technological advances and the rest of it, or do we want to see them as an importer to the UK? Right now, they are an importer to the UK. I am interested in UK manufacturing jobs. I am not interested in importing cars, buses or anything else from somewhere else into the UK.

They will come. We are part of a global market, and I am not worried about that, but I want to see jobs here in the UK. At the moment, we are seeing jobs undermined in the UK. There is a lot of subsidy in the Chinese economy, of course, which we need to address, or find redress for, to protect our sectors, not just in the UK but in Europe as well, because they are a major, dominant player in Europe now.

Q513 Matt Western: In terms of the EU and its position, I just want to be clear on what you think about the EU agreeing with China minimum pricing levels for EVs, as opposed to tariffs. Do you have any thoughts on that? Is it workable? That is what the EU is talking about.

Mike Hawes: It is considering that, but it is a difficult thing to arrive at, because, naturally, you should have a free market, rather than trying to steer a market. We would agree on that. Plainly, it undertook an investigation against state subsidy and found evidence, and so has levied a range of tariffs on Chinese-produced EVs, which includes levies on European brands that produce in China. Rather than that, which is quite punitive, it is looking for a way of arriving at a solution that is more supportive rather than punitive towards those companies that will suffer as a result, bearing in mind that you are sweeping up European companies that manufacture in China as well.

Q514 Charlie Maynard: This feels a lot more bearish than the first panel, and deservedly so. Car production has gone down by half since 2016. Goods exports, not just automotive, are down by 9% in the last five years. In terms of those trade frictions that have come in, how much are they hitting employment in the UK's automotive sector as a result of our relationship with the EU?

Dr Grüneisl: For us, the industrial strategy plays a very important role now, and we have to make sure that manufacturing in the UK is attractive. How is it attractive? If you talk about competitiveness, we have to have good innovations. We have to invest in green energy at affordable costs, so energy costs play an important role. Labour costs play an important role. We have great skills, but we need more. We have to have access to European skills, and to get people from eastern Europe to support our plants in Oxford with building up facilities.

We have barriers here that are not making us competitive. A reduction in bureaucracy is a topic. We have to be innovative in the UK and to scale up, as mentioned earlier. We need volume. In terms of costs per unit, there is a huge difference between producing 700,000 cars and 1.5 million cars in the UK. These are topics that we should address with the



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industrial strategy, which has to send a signal to CEOs around the world that it is worth investing in the UK. It is a long-term investment. From this perspective, those are the topics that we would like to address.

Steve Turner: I was surprised, but I agree with Markus. Part of the labour cost issue, of course, is that we are very cheap and efficient here in the UK. On the other issues, I agree completely with Markus. We have a strange alliance across the motor industry, where we share one voice on so many of the issues that confront us. We have a real problem at the moment around the low-volume crisis that we see.

We have not seen a level of utilisation of plants as low as 53%, which is what it is now in the UK, since the 1950s. That is how bad volume manufacturing is in the UK right now, and those are lower production figures than we had during covid, in 2020. Even though the figures may be increasing year on year, we are still in a low manufacturing volume position. That is a real problem for all of us. That is a problem for the supply chain as well. They do not supply for one company. They supply for a multitude of companies.

We produce mainly ICE vehicles. We do not produce many electric vehicles, which will lead us, no doubt, on to the zero emissions mandate and the difficulties that that is creating for us right now. Because we do not produce electric vehicles, ICE volumes are reducing everywhere. We are seeing reductions in volume at BMW in Cowley. We are seeing it at Nissan. We are seeing it across the sector and across all of our manufacturers. That is low growth in the EU market. We have seen a stagnation of growth there, particularly in electric vehicles. We have ZEV targets, which are reducing—artificially, we would argue—the internal combustion engine build in order to meet false targets that have been set by the Government in terms of the ZEV mandate.

We have delays in new model launches. We have seen that everywhere, and that is costing us volume right now. We are seeing a focus on high value rather than high volume. We see that at companies such as JLR, which is trying to maximise its profit. It is producing more of its high-value than high-volume models. That is impacting shifts, worker numbers, jobs and skills, and everything that goes with that.

Alan Johnson: As a reflection on China, first of all, what you are seeing there is the result of a very well-thought-through and executed industrial strategy for electric vehicles. We are in a competition. You have to compete. It is becoming more and more evident to me that manufacturing high volumes of vehicles in the UK is not competitive. It is not a competitive location to be building high-volume production these days. It is about energy costs. It is everything involved in the cost of labour and training. It is the supplier base, or lack thereof. It is the cost of investment. There are all sorts of issues. Ultimately, the UK is not a competitive place to be building cars today.

Q515 **Charlie Maynard:** If we were inside things such as the customs union



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and the single market, would that help us make more or fewer cars?

Alan Johnson: That is not significant. The issues that we need to address are much more related to the clear impact of the cost of the vehicles that we produce in the UK, because they are too expensive. That is the problem.

Q516 **Charlie Maynard:** Mike, do you have anything to add?

Mike Hawes: I think Alan said it. It is about getting the framework right.

Q517 **Charlie Maynard:** Markus, BMW recently announced a delay to the £600 million investment in the BMW Mini factory. The Government just announced some changes to the ZEV mandate. What impact do those changes have on BMW's decision? What else, if anything, would you like to see different?

Dr Grüneisl: Both topics are separate and have nothing to do with each other. On the ZEV mandate, we appreciate the fast reaction, but we really need a strong impulse for the private market. We need an improved charging infrastructure. The target for the end of this decade is 300,000 charging points. At the moment, we are at about 76,000. Customers have to feel that buying and driving an electrified car will benefit them. Here again, the energy price plays an important role as well. As BMW, we believe in openness to technology, but not just one technology, electrified cars. There are hybrids, plug-in hybrids and green fuels. There are a lot of options to reduce carbon and be sustainable; it is not just about 80% of cars being electrified by the end of 2030. Everyone in the room would probably agree that 80% is not a realistic number. That is on the ZEV mandate.

Last year, we launched three new Minis—the three-door coupe, the five-door coupe, and the convertible. We recognised this low demand for electrified cars globally. We send our cars to more than 100 countries. Flexibility is one of the strengths of the BMW group, and so we decided to review our decision on when we bring electrification to the Oxford plant.

Q518 **Antonia Bance:** What reassurance can you give the workforce and the community in Oxford that Oxford, and your other plants around the UK, will remain the home of the electric Mini into the future, if it is so easy for a group such as BMW to use this flexibility to review these investments?

Dr Grüneisl: At the moment, we are investing in a new body shop and logistics building that is about worth £50 million. That is a strong signal that BMW is fully committed to the UK. At the moment, we are focusing on building the best Minis for our customers around the world. As I said, in the end, it is about competitiveness, so the industrial strategy has to send a strong signal for the long-term future.

Q519 **Alison Griffiths:** We have heard from BMW on the ZEV mandate, which I will come back to. More generally, to what extent have the recent changes to the ZEV mandate alleviated pressure on UK manufacturers?



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Mike Hawes: They will have helped. Ironically, a lot of the small-volume, high-value manufacturers that we spoke about at the beginning were exempt under derogation to 2030. That has been extended to 2035. That is not the support that they would need. It was never meant to be. The changes to the mandate were trying to help the industry overcome some of the cost burden of meeting the mandate. As you know, the mandate was 80% by 2030. Last year, it had hit 22%.

Q520 **Alison Griffiths:** Can I ask a quick counter-question based on something that you just said? There is the cost burden, but Steve very eloquently laid out the volume burden as well. Do you see it as part and parcel of the same thing?

Mike Hawes: One of the reasons why you locate where you do is that you have a strong domestic market. We do not have a strong domestic market. Ironically, last year, we sold more EVs than anywhere else in Europe. Usually, we are second behind Germany, which is a bigger market. Last year, 19.6% of the market was EV. We would say that the underlying level of demand was about 12%, so manufacturers had to buy 7.5% market share for EVs. That cost the thick end of £4.5 billion just on those models. That is unsustainable in anyone's book.

That means that, when you are looking at where you would invest, you would say, "Why would I invest in the UK when the cost of me doing business there, just from a market perspective, is so high?" Yes, we want to build these things here—and you will increasingly see that—but we also need a strong market, which means the more of those you can sell locally, the better.

Q521 **Alison Griffiths:** Alan, what would your view be?

Alan Johnson: In terms of the ZEV mandate, we welcome the changes that have been made. It definitely softens the blow in the short term, but there are still some fundamental issues that need to be dealt with. The customer demand aspect of it is really important. We have a new LEAF coming later on this year, which is a full EV. We have a new Juke coming next year, which is a full EV. We need the market to be there. It is about volume.

We want to see more incentives to support not only sales in the UK, which is a really important market for Nissan, but also production in the UK. There are ways of encouraging production locally. The French are doing it with an eco-bonus scheme in place now, which relates to carbon footprint. If your carbon footprint is under a certain threshold, the customer can receive incentives. Inevitably, that encourages vehicles that are produced either in or extremely close to France. We could do exactly the same in the UK, but we are not.

Q522 **Alison Griffiths:** Can I just pick up on something that Markus said earlier about infrastructure? We can incentivise all we like, but is the demand not there because the cars are too expensive or because



consumers have a lack of confidence in the UK's charging infrastructure?

Mike Hawes: It is a combination of factors. Markus is absolutely right on the infrastructure. Do not get me wrong. I drive an EV and it is definitely getting better. However, the target is 300,000 public charge points by the end of the decade. That relates to a government infrastructure paper put out about three years ago, which said that the UK will need somewhere between 300,000 and 740,000 public chargers. Everyone adopted the floor of the target. Germany, meanwhile, thought that it needed probably a million. We adopted 300,000. That influences things. You need to reassure the consumer that they will be able to charge as easily as they currently refuel. That is one of the reasons.

Secondly, these are still more expensive vehicles. There is no incentive for the private buyer. For the business fleet buyer, there is the benefit in kind tax on company cars, which helps them. That is why they are taking 80% or 90% of EV sales. There is nothing for the private consumer.

Thirdly, there is undoubtedly a more negative narrative in some of the press about EVs. I do not know where it is coming from, and I do not know why. It is certainly not coming from the automotive industry, which is, as you have heard, investing heavily in this technology and needs to get a return on that investment.

Q523 **Alison Griffiths:** Steve, what changes, if any, would you make to the design of the mandate?

Steve Turner: There are fundamental flaws with the mandate. Like others, we welcome the changes on hybrid and the more flexible arrangement in terms of the way in which ZEV works, but that trajectory to 2030 will kill this industry in the UK. That is our view. There needs to be a plan to address this challenge of the ZEV mandate.

It is also about fines. The reality is that people are not paying fines. The Treasury is getting nothing out of this. They are buying credits from manufacturers that oversell the mandate with electric vehicles. Who are they? They are your BYDs in China. The irony is that UK manufacturers are buying a credit from the Chinese, who are already being subsidised by the Chinese state. They are buying credits from Tesla in the United States. They are not paying fines.

Some of the things that we could do are quite fundamental here. How do we re-incentivise investment here in the UK? How do we make sure that we are not fining but rewarding people for investing in technologies and volume manufacturing here in the UK? We should not be fining people who are investing billions of pounds to transition the sector. We should count UK EV exports in the ZEV mandate. Most of our sector is export. Most of the cars that we produce here are exported. Most of the cars that we drive on our streets are imported. That is the reality of it. Every one of the top 10 selling EVs in the UK is imported.



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I am not here promoting imported vehicles. I want vehicles sold that are being manufactured here in the UK and creating good, skilled, well-paid and unionised jobs, from our point of view. That is my mandate. That is what I want to see. I want to see us counting EV exports. Why should it be that we are greening the planet somewhere else, while that is not counting against sales that are not quite meeting the mandate here in the UK?

There are practical things that we could do, such as additional credits for UK build. In the United States, they do that. They have a scheme in California that been in place since about 2008. Their mandated figure is not what ours is here in the UK, which has been in for two years, but they are at about 18% at the moment. We have a false target. We do not have demand for it, so we clearly need demand measures in place to try to encourage more of the private sector at least to invest and to buy an electric vehicle. We need fundamental changes to maintain manufacturing, jobs, investment and technology here.

Q524 Chair: Let me just see if I have understood this. We have a regime that is killing the automotive industry here and subsidising Chinese competitors that are already subsidised by China, or we are transferring money to Elon Musk, who has helped put a 25% tariff on the UK.

Steve Turner: We have a £15,000 fine per vehicle, so Tesla will offer a credit at £13,000.

Dr Grüneisl: Just to make sure that there is no misunderstanding, BMW and Mini achieved the 22% target for last year, so not everyone has to pay penalties. To achieve 28% this year, we definitely need impulses for the private market. There should be an incentive for the private market to get the customer into the cars; then they will love it. We have a great product portfolio across the automotive industry, but customers have to get into the car and incentives are necessary, besides the infrastructure.

Mike Hawes: I should point out that the mandate has been in place for only a year, so the calculations are now being done on last year. As far as I am aware, no one has yet had to buy credits, but there is a good chance, as Steve says, that people will. That is where you will purchase from those who are in credit, which are, clearly, likely to be the all-electric brands.

Chair: That sounds crazy.

Q525 Alison Griffiths: I would like answers of one word, or a handful of words, for this last question. The UK plans to phase out the sale of petrol and diesel cars and vans by 2030. Is this target realistic?

Mike Hawes: What they announced last week is that they will be phasing out cars and vans that are powered solely by an internal combustion engine in 2030. They are now allowing hybrids and plug-in hybrids—and vans, equally—to go forward to 2035. That is important, not just for the market, given where it is, but for manufacturing as well.



Alan Johnson: Fundamentally, it will be a move towards hybrids as a compromise, while customers do not want to buy an EV, either because of the cost or for any other reason.

Steve Turner: We have a problem with 2030. Nobody is ignorant about the damage that is being done to the climate and the rest of it. Everyone wants to see a greener world. We all have kids and the rest of it. The reality is that this is a false, self-imposed target. It is not one based on science or anything else. This was imposed by the previous Government. It was 2035—Europe's 2035, of course—and then it was reduced to 2030. The UK Government are now talking 2030 being the figure. With the current trajectory, unless we have a plan, we will not hit an 80% reduction, and a 100% reduction of pure ICE vehicles, by 2030.

Dr Grüneisl: Again, we should focus on the outcome and not on one specific technology. The target should be a reduction in carbon emissions. Alternative, cleaner fuels are an option as well, as are hybrids and plug-in hybrids. Getting customers into modern diesels is also an opportunity. Driving a new BMW diesel in comparison to a 15-year-old one is much better for the environment. We should move the discussion away from the target and towards what is best for the environment.

Chair: This has been a really important discussion, and we have gone slightly over time, so we are going to whip through some questions very quickly.

Q526 **John Cooper:** I will be speaking to BMW later about the use of my name on their Minis. There has been a lot of discussion about competitiveness in your industry. You have all touched on various aspects that could be improved, but what specifics would you like to see in the forthcoming industrial strategy White Paper? What specifically would your ask be of Government to help you? Mike, you mentioned this first.

Mike Hawes: First and foremost, we have to do something about energy. We are about 60% more expensive than the European average, but we are not competing with the European average. We are competing with countries where the UK could be twice the price. First and foremost, you have to do something about that, and it has to be done now. We are talking about investment timescales. If you are going to fundamentally change the approach towards energy, whereby you are less dependent on the last unit of gas, and that is going to take five years to implement, nothing is going to happen for five years. How would you attract investment with that? Energy is first and foremost.

On infrastructure, a lot of companies, including those around this table, are looking at ways to invest still further in energy reduction measures. Again, in terms of grid connections, the quote is somewhere between seven and 15 years, so planning and reform has to be part of that. As we heard before, infrastructure would also help the consumer.



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We have to do more on skills. Again, you had a good discussion in the last session. I will not repeat any of that, other than to say that we are acutely conscious as anyone else of the need both to attract and, most importantly, to upskill the people we have. Going back to the first comment that I made, we want to keep the people we have. As you go through a once-in-a-century technology transition, you have to upskill them in terms of that.

Behind all of this is the supply chain, which is often overlooked and critical to the existence of vehicle manufacturing in this country, in terms of making sure that the industrial strategy works for them and for small and medium-sized companies in the same way that it does for large companies.

Chair: We are going to canter through each of those issues very quickly now.

Q527 **Sarah Edwards:** I just wanted to make reference to my register of interests as a former employee of Unite the Union. Just to pick up on energy costs, this is one of the things that I am most concerned about for all businesses, not just automotive. We have a real problem in this country, and it is something that is talked about all the time. Because time is short, could I ask Steve to comment not just on the big manufacturers, but the whole supply chain, which manufactures the parts that go into the vehicles and is being affected by energy costs? Are you having those conversations directly with the places where we have reps and members across the country?

Steve Turner: Energy costs are a fundamental issue in all of this. Steel pays 71% more than its competitors in the UK. We have lost Port Talbot. We could have had a hydrogen DRI system in Port Talbot. We could still have it in Scunthorpe. It is technology that is readily available and being implemented in Holland right now, by Tata, ironically, which could not do it at Port Talbot. We need to manufacture hydrogen.

This needs to be a joined-up strategy. We have just allowed Grangemouth to go in your constituency, Gregor. This could be a manufacturing facility for hydrogen. We need mass volume manufacture of alternative fuels. We have synthetic fuels. Markus mentioned earlier that all our eggs are in the basket of battery technology right now. They do not need to be. We have an energy system whose price is dictated by the price of gas, and yet, if you go to Scotland, about 90% of your electricity comes from renewable sources. If we cannot disconnect the price of electricity—and at least renewable electricity—from the price of gas, we are never going to bring down the price of electricity in the UK. We need an industrial pricing structure for energy, and particularly for electricity.

Alternative fuels are going to be one of the big players as we move forward, and are one of the big strengths of the UK within the industrial strategy. What are we good at? What is our centre of excellence going to



be around high-value semiconductors, chemical technologies for batteries, hydrogen fuel cells, or ICE? We have a fantastic ICE hydrogen engine, which is not being produced yet, but the technology is there. The research and development has been done at Cummins in Darlington. We have PHINIA, which has done the fuel injection systems for that but cannot get to industrialise it. We have no interest from Government around hydrogen, and yet, if we look at off-road, construction, buses or heavy goods vehicles, hydrogen ICE is going to be the way forward. We have no interest in the UK, and yet that is one of those sectors that we could be dominant in.

Q528 **Bill Esterson:** Is hydrogen not very expensive?

Steve Turner: It depends on how you produce it. At the moment, we are paying £1.8 billion a year to renewable energy companies not to produce renewable energy, because it cannot come into the grid. That is madness. Why are we not using that energy to generate hydrogen where we need it?

Q529 **Bill Esterson:** Yes, but this was going to be my main question. How far do electricity prices need to come down to really help manufacturers and help consumer confidence in that transition?

Alan Johnson: Let me start by saying that the Nissan plant in Sunderland pays more for its electricity than any other Nissan plant in the world.

Chair: Thank you. That is the evidence that we needed on that. We are going to come on to skills.

Q530 **Mr Reynolds:** What workforce does the automotive manufacturing sector need to transition to its new future?

Dr Grüneisl: I would say that it is the entire range. It starts with tooling experts and mechanics—classic manufacturing jobs that are important in producing good cars—but also skills in modern fields such as smart maintenance and the usage of artificial intelligence. It is a wide range of skills.

Q531 **Mr Reynolds:** How close are we to being there?

Dr Grüneisl: There are opportunities for us. The UK speaks the language of the world. Artificial intelligence could be where we make a difference, where we are stronger than other countries. One option could be to combine universities, business and Government to strengthen our efforts. As mentioned earlier, manufacturing is still attractive for big companies. We have hundreds of apprentices, but we should not forget the suppliers. Again, smaller companies are very important for us.

Q532 **Chair:** Alan Johnson, what is your view on the skills question?

Alan Johnson: In the north-east, we have a very good network with the North East Combined Authority and with Sunderland City Council. We work very well together in developing our skills and staff, and the broader



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supplier base. It is an ongoing, never-ending challenge as technologies change, but we embrace that, and we embrace the support that we get from the region.

Q533 Matt Western: We have heard repeatedly this afternoon about how the UK is good at innovating, with lots of inventiveness in this country, but not very good at scaling up or going to manufacture, and so on. How well placed are we for these new technologies that you have been talking about, whether it be EV, solid-state battery development, hydrogen fuel cell, or other alternative fuels?

Mike Hawes: We have the ecosystem. We have the Advanced Propulsion Centre. We have the UK Battery Industrialisation Centre. We have the Faraday and so forth. The ecosystem is there. Invariably, when you look at surveys of what the UK is good at, relationships between industry and universities are also very strong. That exists, but your question relates to scale-up, which is where, as you heard in the last session, there is that common failure. We need to be more broad-minded in the technologies that we are focused on.

Of course, I would argue that this industrial strategy has to have automotive at its heart within advanced manufacturing. Here is the opportunity to say, "We will address those barriers to growth, whether that is energy, infrastructure, regulation or the burdens of administration", and so forth. That is one of the key outcomes that you will measure this industrial strategy from. Can you apply that framework and enable a lot more success in a different variety of technologies, many of which Steve has referred to?

Q534 Matt Western: Alan Johnson and Markus, would you be working with organisations such as the UK Battery Industrialisation Centre? Is the UK playing a part in future alternative fuels for global corporates such as yours?

Alan Johnson: It can do. We have a big industrial operation on our doorstep at the Sunderland plant. We already have a gigafactory, and number two is on its way. The biggest challenge that we have is that, no matter what you do, whether it is a battery plant or a car plant, we are too expensive. The Sunderland plant is one of the most efficient, well-run manufacturing plants in the Nissan world, but, by the time you pay for your electricity and gas, you pay your staff their wages, you pay national insurance and all that stuff, we are just way too expensive. The industrial strategy has to get to that. If it does not, it is a waste of time.

Chair: Let us just bring Gregor Poynton in on this, because there is a real question about government co-ordination that is emerging at the absolute core of this debate.

Q535 Gregor Poynton: You probably speak to the Department for Transport, the Department for Business and Trade, and various other bodies. I am just keen to get your sense of how joined up they are in those discussions. If they are not, what would you change? I will start with



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Mike.

Chair: Be honest, Mike. This is your chance to get it on the record.

Mike Hawes: No one is paying attention, are they? If you look at the challenges that have been borne out by this discussion, we have been talking about regulation. A lot of that regulation comes from the Department for Transport. You are looking at energy costs, which is going to sit with DESNZ. You are looking at, "Can we support the consumer?" That is coming from Treasury. You are looking at industrial strategy, which, by definition, is DBT-led. You are looking at skills, which is education. The short answer is that it needs to. Whether it is, it is too early to say, and the proof is going to be in the pudding, I am afraid.

I have been around for long enough to remember the last industrial strategy, which was well intentioned and looked to address a lot of those issues. One of the reasons why it failed is that it did not have support around the Cabinet table, never mind across Government.

Alan Johnson: There is definitely room for improvement. If you take the ZEV mandate, which is a very important policy with a long-term impact on the industry, you could achieve the ZEV mandate targets with every single EV produced in China. We are missing an opportunity here to connect the different aspects and different Government Departments. The industrial strategy needs to provide a framework that can be properly deployed and cascaded, such that you get consistency across the different Departments. Every time there is a piece of legislation that impacts on automotive, it needs to help us, not hinder us. It is difficult enough as it is at the moment.

Steve Turner: I agree with what has been said. There is a real disconnect in Government. They are fiefdoms. They close their doors and they are not interested in listening to other Departments. That is just the reality of it. It has been there for generations. We need to break that down if we are going to have a successful industrial strategy. You cannot have a successful strategy without Treasury, without skills and education, and without a whole series of different measures, including trade and foreign policy. They all need to be in the equation.

The DfT has responsibility for the ZEV mandate, and DBT picks up the pieces. That is the reality of it. That needs to be shared. One Department is coming up with a policy without any understanding of or responsibility for its impact, and another Department picks it up. In this case, it is the Department for Business and Trade. We need to cut through all of that.

In a sense, we need a Minister for Manufacturing who sits in the Cabinet and wakes up every morning thinking about what we are going to do for manufacturing, whether that is about energy and auctions for wind farms that have no connection, turbines or fan blades being manufactured here, or the ZEV mandate. There are a whole series of things where one Department comes up with a great policy that everyone would agree



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with, but where the opportunities that could come from that for UK manufacturing are lost.

There is no one who is getting up in the morning and thinking about manufacturing and the impact of all of this on jobs, on growth, on investment and on new technologies, all of which are things that we are great at in the UK. We are great at R&D, but we then flog it under licence and build it in Korea or somewhere, rather than manufacturing it here. How do we do that?

There has to be a link to R&D. This is public money. Our money is going on companies' research and development for new products that are not going to be manufactured here. We need to stop that. We need to have it clearly written into R&D contracts that, if you want public money, you are going to manufacture that product here. You are going to utilise the workforce here. You are going to develop the skills that you need here. You are going to match investment here. Whether that is an equity stake in the business, or whether it is written into the terms—both great ideas—it has to be addressed. We are a victim of that time after time, and you heard it in a previous panel more so than here.

Dr Grüneisl: BMW has a good relationship with the Government, and particularly with the Department for Business and Trade. I would just echo the point that, in the end, the industrial strategy has to bring all parcels together, with no thinking in silos. It has to be a collaborative approach. That is very important.

Chair: That brings us to the conclusion of this panel. It has been sobering. Thank you very much indeed for being so clear with us about what is going to be needed in the short, medium and long term.