The Semiconductor Industry in the UK

Committee Inquiry

The British Vehicle Rental and Leasing Association (BVRLA) represents the demand side of the automotive industry. Our members engage in vehicle rental, leasing and fleet management. BVRLA members own and operate four million cars, vans and trucks. They spend more than £30 billion upgrading their fleets each year and are responsible for buying around 50% of new vehicles sold annually in the UK, including 83% of vehicles manufactured in the UK for sale in the UK. The vehicle rental and leasing industry supports over 465,000 jobs, adds £7.6 billion in tax revenues and contributes £49 billion to the UK economy each year.

The BVRLA and its members are supportive of the Business, Energy and Industrial Strategy Committee's work looking into the semiconductor industry in the UK. As the global chip crisis has been felt most acutely by the automotive sector, the BVRLA welcomes the opportunity to respond to the inquiry.

The semiconductor shortage, which began with the pandemic halting vehicle manufacturing, has had long-lasting ramifications for the automotive industry. Due to the global chip industry being unable to keep pace with demand, the sector has shifted supply into a concentration of industries, such as consumer electronics, at the cost of traditional customers such as automotive. The lack of supply into the automotive industry has led to order bank delays of over 12 months in some cases when the pre-Covid norm was in the region of three months. This supply squeeze has had the knock-on effect of manufacturers prioritising vehicle sales in retail markets, which generate more revenue than fleet. In 2022 year to date, retail car sales have grown 11.4%, but over the same period fleet registrations are down 26%, despite strong demand from fleet customers.[1]

As a consequence, members have bulging order banks but are receiving limited deliveries. This creates difficult case flow scenarios for businesses already weakened by the pandemic. There are now also inflationary pressures and discount erosion to contend with for businesses as the cost of chips and other components for vehicles surge and customers compete for severely limited supply.

With extended lead times, vehicles are being held by fleets for longer, maintenance costs are being pushed up, and customer expectations are not being met as they compromise on vehicle choice due to lack of model availability. In the BVRLA's recent Business Impact Survey, 94% of respondents listed supply as a primary concern for their business - split across vehicle supply (74%) and supply chain (20%).[2]

Whilst the impact of the semiconductor crisis cannot be understated, it is important to note that supply issues in the automotive industry are not the result of only this one factor, but instead have been compounded by several. For example, extreme weather events caused a shortage in plastic components sourced from the US, and the war on Ukraine has led to a shortage of critical components manufactured in the region. The resulting wider components shortages, along with chips and price inflation driven by a number of factors, have created a powerful cocktail of uncertainty and challenge for the demand side of automotive.

Although we wholly embrace the aim of the enquiry and believe that there can be learnings from looking into the semiconductor shortage, Government should however take a proactive - rather than reactive - approach to making the myriad global supply chains of a wide range of critical materials resilient. Using the findings from this inquiry, Government should seek to develop preventative security strategies across the supply chain eco-system to avoid similar crises from arising in the future.

Consultation questions

[1] SMMT new car registrations May 2022

[2] BVRLA Business Impact Survey – March 2022

British Vehicle Rental and Leasing Association
River Lodge, Badminton Court, Amersham, Bucks HP7 0DD
tel: 01494 434747 fax: 01494 434499 e-mail: info@bvrla.co.uk web: www.bvrla.co.uk

Q1: What is the current and future anticipated demand for common products built with semiconductor materials (e.g. computer chips) both in the UK and globally?

1. Current demand for all vehicle types is extremely strong, with growth in electric vehicle (EV) demand outpacing other fuel types. EVs typically require more chips than petrol or diesel (ICE) vehicles. Whilst members order banks are vast and the demand for vehicles is there, the capacity of the chip industry won't be able to catch up with vehicle demand in the short term. As the number of EV orders continues to grow, and vehicles start to incorporate more semi-autonomous features, there will be even more pressure on the semiconductor supply chain to respond to increased demand from industry.

2. The continued disruption in the supply of vehicles to the fleet sector is restricting business growth as manufacturers are unable to fulfil our members' orders. The latest BVRLA Business Impact Survey, found 71% of respondents say lack of vehicle availability will negatively impact future business performance.[2] The current issues with semiconductors come at a time when both industry and Government are pushing people to switch into EVs. By 2030, there is a legal requirement for manufacturers to stop supplying petrol and diesel vehicles into the UK – meaning future anticipated demand for vehicles requiring more chips is hugely significant. The semiconductor industry must expand to meet this foreseen level of demand.

Q2: What is the UK's semiconductor supply chain and is this secure? If not, how can this be improved? What specific strengths does the UK have to contribute to regional or global semiconductor supply chains? How competitive is the UK within the global context of the semiconductor industry?

3. Within the automotive industry, there is an overreliance on a small number of chip factories concentrated largely in Asia, such as Japan and Taiwan. Sourcing chips from only a few suppliers has led to dependency in the sector, which highlights the fragility of these supply chains – any minor disruption can become quickly severe and widespread.

4. The UK must urgently diversify its supply chains to build up resilience and rebuild confidence in supply. By investing in R&D, the UK can onshore aspects of the supply chain or start using suppliers from more nearby countries.

Q3: Are there opportunities for strengthening different parts of the current UK semiconductor industry? What are the potential weaknesses and strengths of the UK semiconductor industry to meet future requirements of electronic device manufacturing?

5. The UK can strengthen different parts of the semiconductor industry by investing in R&D. The Government can look to the EU's Chips Act and Semiconductor Fund as an example of how to strengthen chip manufacturing in the medium term and how to support the scaling up of the industry through funding and innovation.

Q4: In which industries does the UK not have an end-to-end semiconductor supply chain? Are there any opportunities for these supply chain gaps to be filled within the UK?

6. Not our area of expertise.

Q5: How can the Government strengthen semiconductor research and innovation? Are there any current areas of weakness in the present Government strategy to semiconductor innovation? Is there effective communication between the various stakeholders within the UK's semiconductor ecosystem?

7. We agree that the Government should prioritise strengthening semiconductor R&D to enhance chip supply chains. However, whilst we appreciate the focus on a strategy for semiconductors, there is inherent weakness in the lack of Government strategy for other critical materials. The chip crisis has been further amplified by
8. other supply issues such as wiring looms due to the war in Ukraine. This confluence of factors is only set to precipitate further shortages and supply crises. A comprehensive security strategy with

a preventative focus needs to be developed that encompasses all essential materials used to manufacture products critical to UK ambitions, such as electric vehicles, which use a complex set of components and must rely on varied supply chains. The UK needs to have robust domestic supply chains that can ensure the needs of UK consumers and businesses can be met, irrespective of the global geo-political or health situation.

Q6: Does the UK have the required skills, talent and diversity to be able to boost its current semiconductor industry and to respond to future disruption?

9. Not our area of expertise.

Q7: What are the potential national security concerns or vulnerabilities in our semiconductor industry? How should the UK collaborate with the United States and European Union? What are the ramifications on other industries and the wider economy within the UK?

10. The UK should seek to collaborate with the EU in terms of knowledge transfer. For example, the UK and EU can share developments in technology and strategies for attracting investment to scale up semiconductor manufacturing in Europe. UK and EU vehicle manufacturing supply chains are already highly integrated and joint efforts in the semiconductor space could reduce reliance on global competitors, specifically in Asia.

Q8: Is the Government currently providing the clarity and direction required to enable growth and security in the semiconductor industry? Are the right governmental organisations involved with ensuring effective development of our current semiconductor industry to thrive in the future?

11. As we are not directly involved in the sector this is not our area of expertise. However, we are not aware of any clear strategy from Government to deal with supply chain shocks and future-proof the UK economy to the degree we believe is vital. We believe BEIS needs to take a more proactive role in building truly robust UK supply chains.

About the BVRLA

The BVRLA represents over 1,000 companies engaged in vehicle rental, leasing and fleet management. Our membership is responsible for a combined fleet of four million cars, vans and trucks – one-in-ten of all vehicles on UK roads.

BVRLA members represent the demand-side of the automotive industry, buying around 50% of new vehicles, including over 80% of those manufactured and sold in the UK. In doing so, they support almost 500,000 jobs, add £7.6bn in tax revenues and contribute £49bn to the UK economy each year.

Together with our members, the association works with policymakers, public sector agencies, regulators, and other key stakeholders to ensure that road transport delivers environmental, social and economic benefits to everyone. BVRLA members are leading the charge to decarbonise road transport and are set to register 400,000 new battery electric cars and vans per year by 2025.

BVRLA membership provides customers with the reassurance that the company they are dealing with adheres to the highest standards of professionalism and fairness.

The association achieves this by reinforcing industry standards and regulatory compliance via its mandatory Codes of Conduct, inspection regime, government-approved Alternative Dispute Resolution service and an extensive range of learning and development programmes.