

## How the UK Lost its Auto Industry

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The classic Mini was produced by the British Motor Corporation and its successors from 1959 until 2000.

As in the U.S., the U.K. car industry was once a robust industry that inspired national pride, dominating its home market and setting the bar for prestige and sophistication with brands like Bentley, Rolls Royce, and Jaguar.

At the industry's peak in the 1960s, a million people made cars in the U.K. — five percent of the country's total workforce — with suppliers and salesrooms swelling that number. British Leyland alone, which made the iconic Mini, employed nearly 200,000.

But in a scenario that should sound eerily familiar to watchers of the decline of the U.S. auto industry, the management of Great Britain's largest carmakers proved slow to adapt to changing markets and were handcuffed by their workers as well. Output at overmanned plants was hit by constant labor disputes from the 1950s, making them unproductive and unprofitable. British firms lacked the flexibility to compete abroad even as European manufacturers began targeting the U.K. market with exports of right-hand drive models. And British vehicles often failed the technical standards set by export markets.

## Protecting the National Psyche

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Jaguar was acquired by Ford and then later by India's Tata.

As would become typical, the U.K. government tried to come to the rescue, engineering a merger of the country's remaining large manufacturers in 1967, combining the Austin, Morris, Standard, and Triumph lines to create British Leyland as a national champion. Cars, unlike other manufacturing industries in decline such as steel or shipbuilding, represented glamour and prestige. Failing motor firms not only dealt a blow to the economy but to the U.K.'s ability to hold its head high. When government ministers intervened — as they often did — it was not just to save jobs but to rescue Britain's respect.

But size did not solve the problems and, after losing its market lead to Ford and running up huge additional losses, British Leyland was nationalized in 1975. Leyland was a lame duck, but insolvency was unthinkable to ministers: it was too big to fail and too strong a symbol of national status. Governments used the motor industry to implement economic policy, forcing firms to put factories in deprived regions and giving grants to create jobs.

British Leyland was eventually sold to British Aerospace in 1988, resold to BMW six years later, handed to a U.K. consortium in 2000, and went broke after five years with Chinese firms buying its plant and designs. Even the prestige brands of Rolls-Royce and Bentley, nationalized in the 1970s after their aero-engine parent went bust, were bought by BMW and Volkswagen, respectively. Jaguar and Land Rover were acquired by Ford and then sold to Tata of India, while Peugeot closed the plants it had purchased from Chrysler.

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## The New Reality

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Bentley was bought by Germany's Volkswagen in 1998.

Nowadays, the U.K. has plenty of car manufacturing — total vehicle output for 2008 was close to 1.65 million — it's just that others own it. "We Brits appreciate foreigners funding the losses and supporting U.K. employment," observes Jon Moulton dryly. Moulton, the founder of private equity firm Alchemy Partners, made a few bids for Land Rover and Rover Group in their dying days.

The U.K. auto industry still employs about 800,000 people now, but just 180,000 are manufacturing jobs and another 106,000 at components makers. Ford, the current market leader, has just 13,000 production workers. The U.K. is home to 2,000 motor parts makers — 19 of the world's top 20 firms — and is increasingly part of the European auto industry. While components companies are suffering from the global recession, exports by firms such as GKN and Pilkington total £ 5 billion a year (about \$7.5 million).

Steve Radley, chief economist at the Engineering Employers' Federation, says: "The motor industry is still a major employer, not just in itself but through the supply chain." In the 1980s, Nissan, Honda, and Toyota built plants in Britain, importing Japanese production techniques instead of Japanese-built vehicles. BMW constructed a new U.K. plant to make a relaunched Mini. Ford, and for now, GM still build cars in Britain.

And the industry is key to Great Britain's balance of payments, particularly as the financial services industry — the nation's biggest source of revenues — falters in the global recession. While 80 percent of cars purchased in the U.K. are imported, at least three-quarters of cars produced in the U.K. are sold abroad. Vehicles account for 11 percent of the total value of U.K. exports, worth £ 25 billion a year (or about \$37.5 billion.)

"The motor industry is less of an indication of economic potency in the U.K. than in the U.S., but it still matters," says Jonathan Loynes of research firm Capital Economics. The pride of having a homegrown auto industry that is a global power was extinguished in the 1970s, but that proved to be a survivable blow.

"Ownership is one thing," concludes Loynes. "Contribution to the U.K. economy is another."

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