automotive council UK

UK International Competitiveness Report 2025:

October 2025

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Executive Summary

Automotive manufacturing in the UK is – in common with the industry across the globe – undergoing a challenging transformation, driven by technological change, shifts in mobility use cases, and geopolitical turbulence. If no action is taken, this poses risks to industry sustainability. At the same time, the reshaping of the sector is an opportunity for the UK.

As a country with a rich motoring heritage, a history of open international trade and a wealth of advanced technology and research – not to mention the advantage of a skilled workforce fluent in English – the opportunity is to shore up our current manufacturing footprint and to attract the next round of investments in mobility and manufacturing and create a sustainable, high value industry providing rewarding and highly skilled employment across the country

Our report, based on an extensive industry survey, found that internationally mobile automotive investment is dependent on several key factors, all of which require careful management:

1) **Cost**
   While not the sole factor determining an investment decision, any investment will require a clear business case. Labour and energy are the highest costs in manufacturing and as such the critical factors. Avoidance of increased fringe labour costs (taxes and other burdens), funding productivity improvement and action on energy prices are key to achieve baseline competitiveness, while targeted incentives in automotive clusters will be key to achieve business competitiveness for investments.

2) **Supply chain**
   A healthy supply chain is critical to maintain a competitive location for investment – both current parts and future mobility components. Enhanced SME business and productivity improvement, export and finance support are essential, and local authorities should coordinate better to support higher risk suppliers through industry transition.

3) **Trade and government engagement**
   The UK has the intention to be a global trade leader – putting automotive at the centre of this is an opportunity to demonstrate our ambition. A streamlined, effective incentive system, competitive to other state aid regimes in both generosity and accessibility, with strong engagement through a “concierge”-type system to deliver break barriers across government, is a pre-requisite for success.

4) **Labour availability and flexibility**
   Preserving this key UK strength with targeted training, utilising the apprenticeship levy, regional collaboration and avoidance of over-regulation is critical.

Analysis of international investments supports these conclusions – emphasising also the importance of **concierge services**, **readily available connected plots of land**, and building on **relationships with OEMs** developed over the longer term (including R&D as well as manufacturing). These are all characteristic of successful bids for investment – in other words, eliminating barriers and making it easy for decision makers to invest.

The global race for automotive investment is tough, but the UK's history, culture and advanced R&D mean that – with a relentless focus and targeted interventions to eliminate cost disadvantages and supply chain fragility – it can be a true competitor for the future of auto manufacturing.

About the Automotive Council

The Automotive Council was established in 2009 to enhance dialogue and strengthen co-operation between UK government and the automotive sector. The Council is made up of senior figures from across industry and government and meets three times per year.

The activities of the Automotive Council are channelled through six mission and enabler groups, as below, each divided into a range of workstreams:

- Advancing Digitalisation
- Connected and Autonomous Mobility
- Skills
- Supply Chain
- Transition to Zero
- UK Competitiveness and Business Environment

These groups cover issues of critical importance to the UK automotive sector.

Introduction

The automotive industry has rarely seen as great a transformation as it is currently experiencing. Technological change is being driven by the shift to zero emission, connected and automated vehicles while use case change is driven by the shift from ownership to usership, the continuing evolution of city mobility across Europe and the increasing prevalence of software defined vehicles. Meanwhile, existing manufacturers are drastically revisiting their production footprint in the face of aggressive new market entrants. All this is occurring in a time of geopolitical turbulence unprecedented in recent years – which is hugely disruptive in an industry used to global supply chains. This presents both risk and opportunity for the UK.

The risk is clear: volumes are significantly reduced from their peak and future model introductions are uncertain amongst several OEMs – with the critical supply base suffering from this uncertainty and several suppliers moving production overseas. Future reduction would be a huge challenge to the sustainability of industry in the UK – and contraction of the auto industry would have a huge impact on the UK economy and national resilience. On top of providing high value, well rewarded employment across the regions of the UK – to the tune of 183,000 manufacturing jobs - automotive provides a bedrock of technological innovation and productivity improvement.

But there are grounds for optimism. The Modern Industrial Strategy acknowledges these challenges but outlines initiatives which can increase the sector's competitiveness. Importantly, it includes the ambition to make 1.3 million vehicles in Britain by 2035 – indicating an aspiration to support current manufacturers and attract new investment in vehicle and supply chain. Further recent announcements such as trade agreements with the US and India, a reset of the relationship with the EU and measures to support the market's transition to zero emission vehicles (ZEVs) are all encouraging.

The UK can be a highly attractive place for global automotive manufacturers to produce vehicles and components. We have a long heritage of motor manufacturing, high capability in advanced engineering, including motorsport, and labour skilled at producing vehicles with high productivity. The country has a history of tolerance and pragmatism, and the advantage of a workforce with native English language capability. Our politics are stable; we value the rule of law. We have a tradition as an international trader, and an ambition to build on this. Above all, we have a history of welcoming international investment on a macro and local level – supporting staff from overseas to live and work in the UK at new ventures. All this can help the UK stand out on a shortlist for investment.

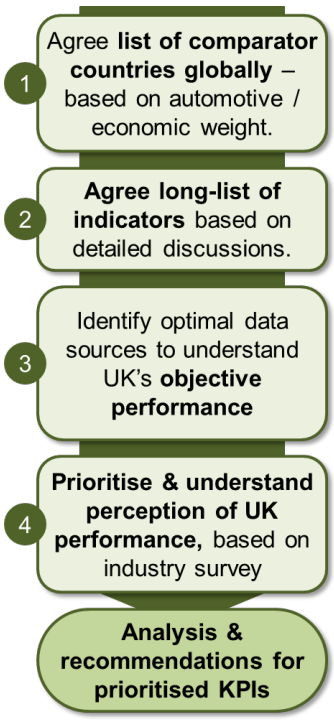
To be part of that shortlist, however, it is critical to understand the factors which internationally mobile investors use to draw the list up in the first place. This report is designed to throw a spotlight on these key drivers for investment, to demonstrate the UK's strengths and weaknesses, and to make suggestions as to how industry and government can work to increase the UK's competitiveness. By objectively understanding our strengths we can showcase what the UK does well. Understanding our weaknesses helps direct long-term policy – and, in the short term, to make local level interventions to put the UK on par with other countries fighting for investment.

Shoring up the existing industry in the UK, and attracting new investment requires a shared ambition, speed and purpose, and will require the industry and all departments of government to work in close coordination. This report aims to outline the areas where this coordination should be focussed – to deliver the bright future that those working in UK automotive manufacturing deserve.

Methodology

The UK International Competitiveness (UKIC) Work Stream is supporting the Automotive Council's work to strengthen the competitiveness and attractiveness of the UK automotive sector by creating and maintaining an objective list of those KPIs which drive investment decisions.

Since the first edition of this report, our approach has been practical rather than theoretical; we aim to investigate and understand the key priorities in the eyes of those people in the automotive sector charged with making actual investment decisions. This comprises:



1) A **list of comparator countries** was agreed based on agreed criteria – including automotive manufacturing presence and economic weight / likely growth. This list evolves over time, and in the 2025 edition we have included 23 comparators (see Chart 2 for details).

2) From discussions with key stakeholders, a **long-list of competitive drivers** was drawn up, and over the course of several months narrowed down to those factors which were felt to be of greatest relevance. With this edition, there were significant discussions to ensure the original list generated in 2015 was still relevant to the evolving automotive industry - and in light of this updates were made – for example, the addition of supply chain robustness and availability of EV components.

3) For each of these competitiveness drivers, an **optimal data-source to illustrate the UK's objective performance** has been identified wherever possible.
   Key criteria for an index of this type are:
   - credibility of source
   - timeliness and frequency of data update, and
   - range of comparator countries for which the data is available

   Where no suitable data-source was available publicly we have noted the gap and will seek to close it in future work. Finally, we undertook a wider survey of decision makers in companies throughout the automotive sector – comprising 50 organisations covering 99% of UK production. Reflecting our approach to investigate the priority of decision makers, the survey asks respondents to:

   - rate each competitiveness driver from most important to least important (in effect score them)
   - put the KPIs in order of importance and to indicate their view of the UK's performance on each KPI versus international comparators (ranking)

   Taken together this approach allows us to **prioritise these competitiveness drivers** and to understand decision makers' **perception of UK performance**.

This approach allowed us to identify the top KPIs which will ensure the UK's long-term competitiveness, together with a longer list of competitiveness drivers which act as critical factors to maintain the UK as a competitive candidate for investment.

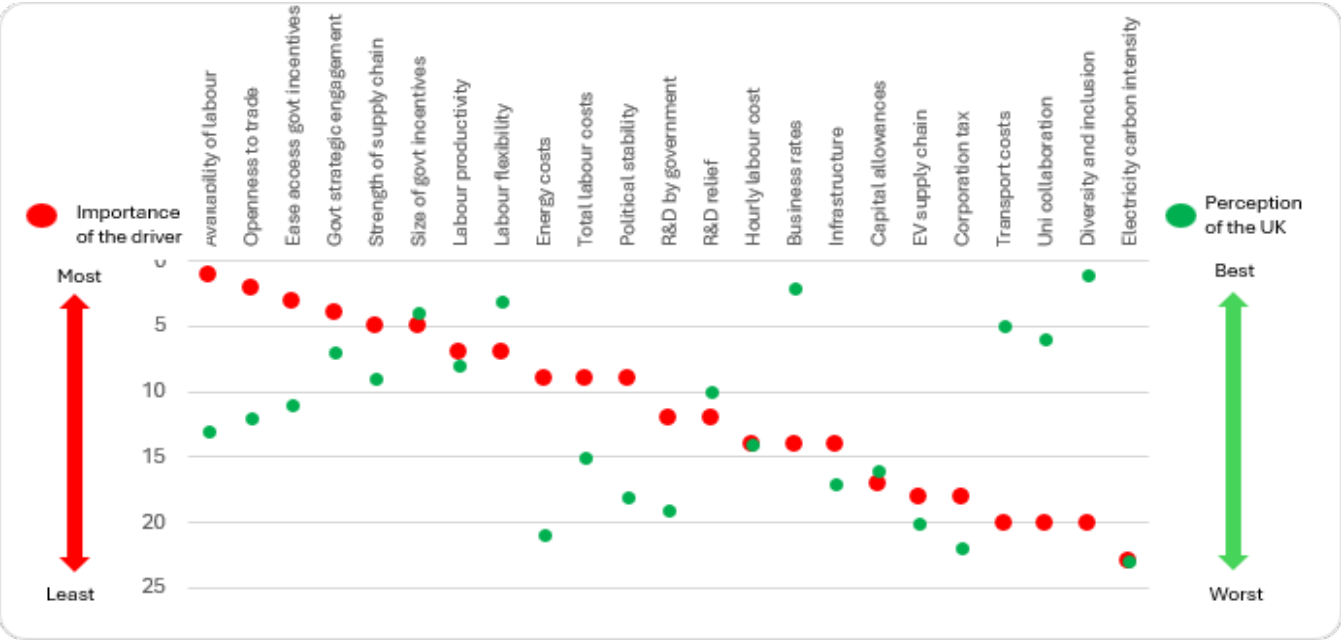
This report sets out the long list of drivers, and for the top KPIs we have undertaken a deeper analysis and provides recommendations on how the industry and government can work together to strengthen the competitiveness of the sector as a whole.

Survey results

Some 50 companies covering more than 99% of vehicle production in the UK responded to the UKIC survey at the end of 2024 into 2025. The survey asked respondents to rate and rank 23 key metrics on their importance to influence investment decisions and also asked about their perception of the UK's performance to those indicators. Note: ratings and the UK's perceived strength scores are then ranked.

The results are presented below.

Ranking key competitiveness drivers



Ranking of factors influencing investment decisions

	Rating	Ranking	View of UK
Availability of labour	1	3	13
Openness to trade - trade agreements with auto markets	2	15	12
Ease of accessing government incentives	3	11	11
Government strategic engagement	4	10	7
Strength and resilience of supply chain	5=	17	9
Size of government incentives	5=	8	4
Labour productivity	7=	2	8
Labour flexibility	7=	5	3
Energy costs	9=	7	21
Total labour costs (including benefits etc)	9=	1	15
Political stability	9=	16	18
Investment in R&D by government	12=	14	19
R&D relief	12=	12	10
Hourly labour cost	14=	4	14
Business rates	14=	9	2
Infrastructure – e.g. transport, energy	14=	20	17
Capital allowances	17	13	16
EV supply chain (specifically)	18=	21	20
Corporation tax	18=	6	22
Transport costs	20=	19	5
University / industry collaboration	20=	23	6
Diversity and inclusion	20=	18	1
Electricity carbon intensity (e.g. renewables mix)	23	22	23

Contextualising the 2024 Survey Snapshot

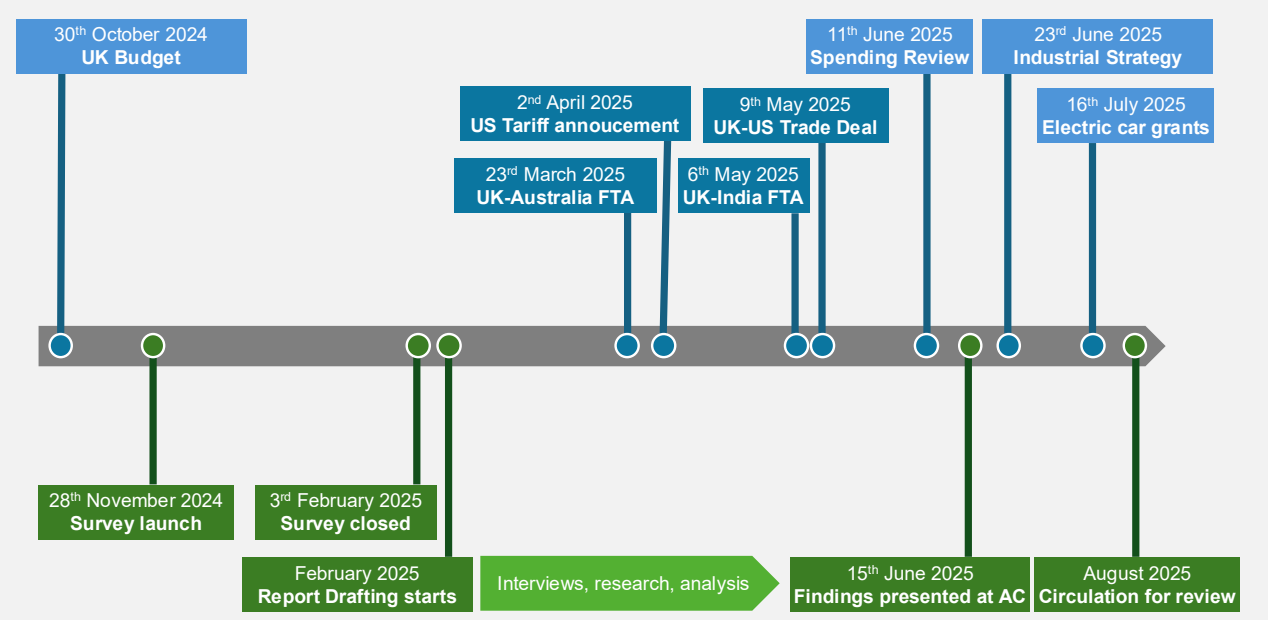
Inevitably any survey will capture a point in time, and this report is no exception - with our survey and reporting taking place during a turbulent time for automotive manufacturing and international trade. Since the survey results were produced in early 2025, and subsequent drafting, there has been much to keep both industry and government busy; the imposition of US tariffs and the subsequent announcement of an agreement with the UK, the announcement of a trade deal with India, increases in National Insurance Contributions, changes to the ZEV mandate flexibilities, and the reintroduction of purchase support for Battery Electric Vehicles (BEVs). Inevitably, the cost competitiveness equation will have shifted.

Nevertheless, this only underscores the relevance of our survey's indicators. Even as headline tax or tariff numbers trend up or down, the industry's hierarchy of priorities – from securing skilled labour through to controlling energy spend – remains remarkably consistent. Our respondents did not merely grade today's price tags, they identified the fundamental drivers that will determine the UK's attractiveness over the coming decade.

Moreover, by updating our KPIs for 2025, we offer government, industry bodies and grant-funders a reference point against which to measure the impact of policy change or economic upheavals. The prioritisation of competitiveness drivers in attracting investment, alongside the indicators of UK strengths or weaknesses revealed in this report, will continue to inform where interventions will yield the greatest competitive gain.

While the automotive landscape evolves, this survey remains a robust mirror of sector sentiment in 2024-25 - and a solid foundation for tracking progress

Timeline of events during creation of this report



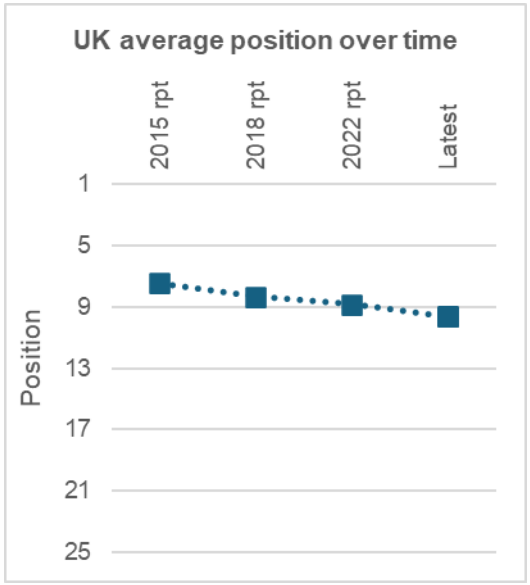
Key Performance Indicators (KPIs)

Based on the key findings of the survey, and the Automotive Council's work to date, the following four key areas of analysis, with recommendations, have been selected. This is based on the methodology outlined and validated by industry members of the Automotive Council as critical for investment decisions in the UK automotive sector. The chart below shows the average ranking across all countries across all KPIs and shows the UK ranked 10th with an average score of 9.7. Chart 3 shows how this score has changed over time, indicating the UK's ranking has slipped (from 7.4 to 9.7), although it should be noted that the KPIs and country comparisons have changed too.

All KPIs ranked (lowest score is best)

Germany	7.7
US	7.7
China	7.7
South Korea	7.7
Netherlands	8.4
Canada	8.5
Czech Republic	8.9
Spain	9.5
Japan	9.6
UK	9.7
France	9.8
Poland	10.8
Hungary	12.1
Thailand	12.4
Italy	12.7
India	13.3
Slovakia	13.4
Turkey	13.4
Mexico	13.5
Romania	13.8
Indonesia	14.2
South Africa	15.7
Brazil	15.8
Morocco	16.7

UK's evolution over time



KPI – international comparisons over time

	KPI	EU rating	Global rating	2024 report	*2022 report*	*2018 report*
Labour cost	Hourly labour cost*	R	R	8/11	*8/11*	*7/16*
	Fringe labour cost*	A	A	6/13	-	-
	GDP/hour worked	A	A	5/18	*5/18*	*6/16*
	productivity in Automotive	R	R	6/11	-	-
Investment Cost	Corporation tax	G	G	3/24	*3/25*	*5/25*
	Business rates	R	R	22/22	*12/15*	*14/15*
	Capital allowances Plant & Machinery	R	R	13/17	*12/14*	*14/22*
	Capital allowance – buildings	R	R	14/16	*11/13*	*23/23*
Transport costs	Diesel cost/litre	R	R	24/24	*25/25*	*25/25*
Energy costs	Gas prices for businesses, $/kWh*	G	A	7/17	*6/12*	*1/11*
	Electricity price for businesses $/kWh*	R	R	24/24	*24/25*	*5/11*
Contribution of supply chain	VA output (million euros)*	R	R	8/11	-	-
	Nr. of employees in supply chain*	R	R	9/11	-	-
Political stability	Country risk	G	A	7/24	*7/25*	*5/25*
	Governance indicator	G	A	7/24	*5/25*	*4/25*
	Corruption perception	G	G	4/24	*3/25*	*2/25*
Globalisation	Globalisation index	G	G	2/24	*2/25*	*6/25*
Infrastructure	Overall infrastructure	A	A	8/23	*11/25*	-
	Technological Infrastructure*	A	A	9/23	-	-
	Information & Comms Infrastructure	G	G	4/24	*2/25*	*1/25*
Regulation	Burden of Govt regulation	R	R	20/24	*4/25*	*4*
Trade	Number of RTAs	R	A	11/24	*11/25*	-
	Trade openness index	R	R	16/24	-	-
	Values of Export-Vehicle*	A	A	11/24	-	-
	Values of Export-passenger cars*	G	A	9/24	-	-
Private R&D	Uni/Ind research collaboration	G	A	7/24	*6/25*	*2/25*
	GERD by business, %GDP	G	A	5/21	*8/24*	*8/23*
Govt support	R&D incentives - large companies	R	R	9/21	*15/21*	*14/21*
	R&D incentives - small companies	R	R	11/21	*7/20*	*7/20*
	R&D by Government, %GDP*	G	A	5/23	*15/18*	*20/24*
Skills - engineers	Tertiary education enrolment	A	A	5/24	*12/24*	*15/25*
	Graduates in science & engineering	R	A	14/23	*7/24*	*7/24*
operators	PISA scales reading, maths, science	G	A	5/22	*6/23*	*6/23*
	Secondary education enrolment	A	G	4/24	*3/22*	*3/22*
	Skilled labour*	G	A	7/23	-	-
Talent resilience	Attracting & retaining talent*	A	R	13/23	-	-
	Labour market reslience*	G	G	3/24	-	-
Manufacturing health	Production growth	R	R	17/23	*16/24*	*13/23*
	Manufacturing GVA	A	A	11/24	*8/22*	*26/26*
EV Adoption and Infrastructure	EV Battery Capacity growth*	R	R	9/12	-	-
	EV Volume in Use*	G	A	3/18	-	-
	Charging Infrastructure Density*	G	G	3/18	-	-

- Full details of this table is published with this report, and includes metrics for all the figures along with data sources.
- Asterisk (*) indicates new data source, or different from that used in the previous report.
- The data covers the period from 2022 to 2025. The RAG rating is defined as follows:
- **G (Green)** = Top 30% in the EU / Top 20% globally **A (Amber)** = Above average **R (red)** = Below average

The UK's performance has remained relatively static over time, with strengths in areas such as globalisation, manufacturing GVA, and university/industry research collaboration. However, there are significant challenges, notably in investment costs, transport costs, energy costs, business rates and R&D support. The UK ranks poorly on key cost indicators, coming bottom in business rates, diesel and electricity prices. Burden of government regulation is a notable negative mover in the latest figures. We have included several new metrics in this report, for most UK is middling to poor in those, eg fringe labour costs, automotive productivity, strength and resilience of the supply chain, but for labour market resilience, EV volumes and charging density the UK ranked highly.

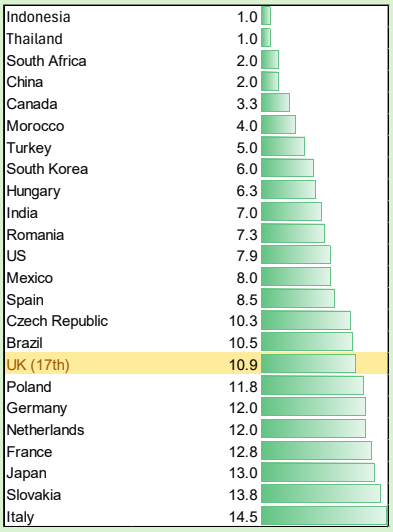
Key Evaluation Criteria

Across four key areas, the UK performed well in overall productivity, labour flexibility, labour and availability. It ranked around the middle for trade and government indicators however the UK performed poorly on cost-related factors and supply chain performance. Cost is typically seen as one of the most important influences on investment decisions, and it's noticeable that new automotive investment has tended to go to low-cost regions. The UK has high labour costs, although taking account of productivity and broader social costs, these can be shown to more competitive than on pure costs alone, but on energy we are seen as having exceptionally high costs (the highest for electricity).

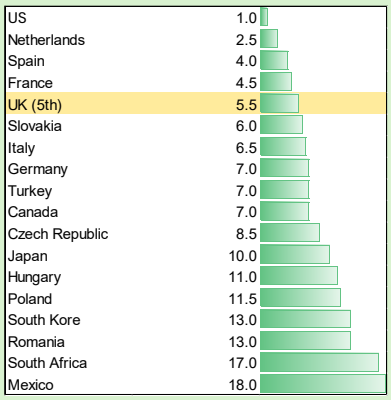
Cost

- Labour and energy
- Productivity

Cost



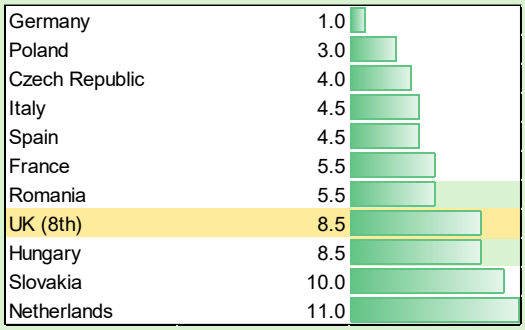
Productivity



Supply Chain

- SME support on efficiency and skills
- Support high-risk suppliers via OEM–local links

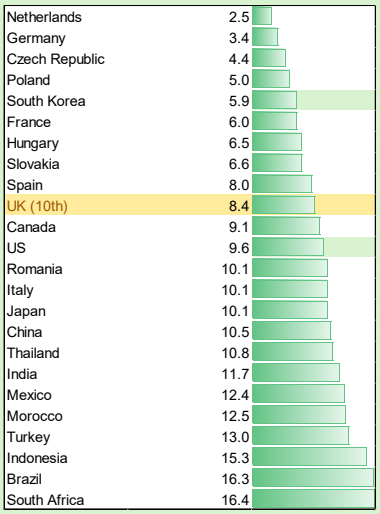
Supply chain



Trade & Government Engagement

- Openness to trade
- Political stability & government support

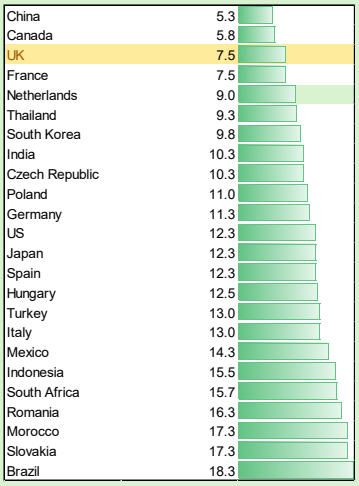
Trade & Government



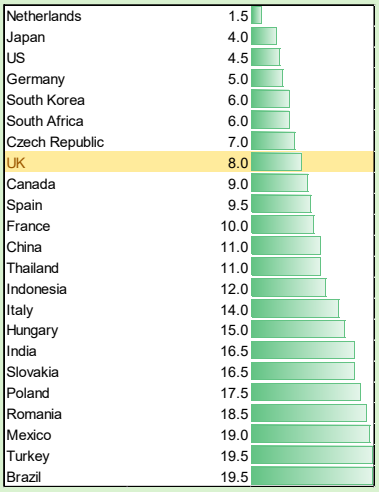
Labour

- Availability of labour
- Labour flexibility

Labour availability



Labour flexibility



Summary of Recommendations

Detailed recommendations are listed elsewhere in this report but the table below is intended as a broad summary of the themes touched on throughout each chapter.

Demonstrating the relative strength of government engagement, it is positive to note the correspondence to the Industrial Strategy themes published in Summer 2025. As industry works across government to realise the initiatives in the Strategy, to shore up the UK's competitiveness and realise the investment required to achieve the UK's ambition of producing over 1.3 million vehicles in 2035, dialogue between the industry and government will be essential.

Cost

- **Labour Cost:** Avoid additional taxes on labour which will impact business decisions, improve apprenticeship levy, use targeted incentives to offset against lower cost economies.
- **Productivity:** Fund lean manufacturing, target long-term improvements throughout the supply chain.
- **Energy Cost:** Government and industry to work closely and with urgency to develop the proposals set out in the Industrial Strategy.

Supply Chain

- **Supply Chain SME Productivity**: Improve productivity, energy reduction, training, and business management for SMEs with government and OEM support.
- **Export**: Re-establish export support like trade shows.
- **Finance**: De-risk private sector finance and replace European Regional Development Fund (ERDF).
- **Local Authority Coordination**: Increase coordination between OEMs & local authorities to support high-risk suppliers.

Trade & Government Engagement

- **Trade**: Collaborate with the EU, pursue global deals, support exporters.
- **Incentives**: Review state aid, streamline applications, continually benchmark other regimes in terms of generosity and ease of accessibility / lead-time, prioritise long-term strength.
- **Engagement**: Strengthen relationships through dialogue, adopt a whole-government approach.
- **Stability**: Maintain political stability, develop predictable policies through continuous dialogue.

Labour

- **Labour Availability**: Review apprenticeship levy for flexibility, enhance regional collaboration to address skills shortages, work with automotive on post-16 year old's strategy.
- **Labour Flexibility**: Avoid overregulation, strengthen forums for collaboration on regional employment strategies.

KPIs Deep Dive

Part I: Cost

While cost is not the sole determining factor for competitiveness, ultimately any investment will need to demonstrate a clear business case. We therefore cover cost first as the most important factor influencing investment decisions.

Of all costs our survey demonstrated that **labour cost** and **energy cost** are the most critical factors determining the UK's competitiveness as a destination for automotive investment; this is not surprising as they are typically the highest costs faced by manufacturing businesses.

Summary of Recommendations

Total labour cost

- Preserve fringe labour cost advantage: **avoidance of, and careful consultation before, any additional tax or other burden** on labour and benefit costs.
- **Improve apprenticeship levy** to enable greater take-up by employers providing value-add apprenticeships.
- Proactively utilise targeted labour incentives in **Industrial Zones, avoiding time limits on application**.

Labour productivity

- Create **coordinated funding streams** to allow the **high productivity. demonstrated by OEMs to develop the supply base in lean manufacturing**
- Funding targeted for **long-term productivity improvement** – with **value for money assessed on this criteria.**

Energy cost

- **Rapidly bring forward the measures on electricity prices and grid connections** set out in the Industrial Strategy, with government and industry working in **close collaboration** (including giving auto same benefits that EII has).
- Monitor gas prices and take rapid action where there are risks affecting cost competitiveness.
- Re-introduce **an enhanced and simplified Industrial Energy Transformation Fund.**

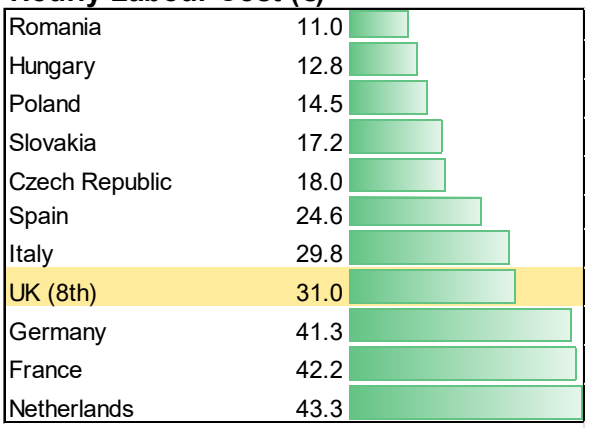
I-1 Total labour Costs

The industry is justly proud of its ability to provide well rewarded careers, acting as a force to give opportunity to people from all areas of the country through high value employment. It will be difficult to beat less highly developed countries on wage cost alone. Nevertheless, labour cost is an absolutely critical factor in determining competitiveness for investment – and the industry and government should work to mitigate any disadvantage in attracting investment.

Rank:	Basic labour cost: 8/11	Fringe labour cost:	6/13
Perception:	**2.50** (5 = strong)		

- The UK's economy is not low cost. Industry understands that the UK has higher labour costs than competitors – and the ability to deliver high value employment throughout the country is something of which we should be proud. Data from the ONS shows that average earnings in the automotive sector (SIC29) are 8% above the UK average, over £40,000, and often considerably higher in the regions where automotive is prevalent.

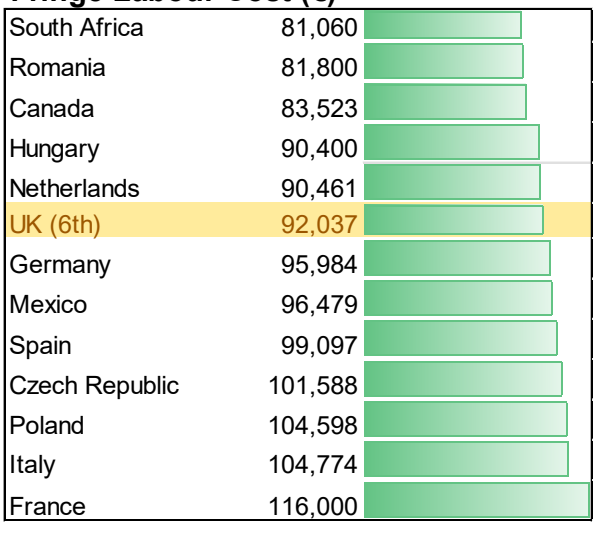
Hourly Labour Cost (€)



Eurosta/ONS labour costs (total) (2024)

- Earnings in vehicle manufacturers (SIC29.1) are 26% above the national average, at over £47,000. This should make automotive an attractive place to work.
- While variances in wage inflation, exchange rate fluctuations, and automation levels mean that decisions will be based on broader competitiveness, **a company's wage bill typically makes up the highest part of any manufacturing facility's costs**, and so it is inevitable that labour costs are a key determinant of competitiveness.
- Our Industry survey showed the particular importance of **total labour costs** – that is, the total cost an employer will need to spend to employ an individual at a given wage. The greater the on-costs payable by an employer, the greater the challenge to attract the talent needed to build the highly capable operations which can compensate for labour rate with productivity (next section).
  The UK shows broad competitiveness with neighbours on

Fringe Labour Cost (€)



EuroDev (2023)

hourly labour cost, but is significantly worse than competing economies in (for example) eastern Europe. On the other hand, fringe labour costs – additional costs to manufacturers to employ their workforce – are relatively competitive for the UK. On this measure, while underlying salary levels are higher, the UK shows competitiveness versus other countries looking to encourage investment.

- That notwithstanding, the UK is not a low wage economy. It is also worth noting that the KPI was captured before the recent National Insurance Contribution increase – which will have a significant impact. When considering how to attract investment it is critical to recognise that labour cost can be an absolutely key determinant – despite the other competitive advantages of the UK, without a robust business case internationally mobile investment will not be able to invest.
- The Government has various levers at its disposal to increase the competitiveness . of labour costs – for existing manufacturers and for new investments. At the same time, misdirected policy can significantly damage competitiveness. One example is the proposal to make all Employee Car Ownership Scheme (ECOS) cars subject to benefit-in-kind company car tax. This will damage the attractiveness of working in the sector, add costs to manufacturers and reduce volumes and so damage growth potential; this proposal should be reversed.
- The **Apprenticeship Levy** will be covered in the section on labour skills – it allows manufacturers to take on and train employees in a way that both reduces costs and increases the pool of skilled labour able to contribute to high value manufacturing during their initial years in the business.
- Initiatives like Industrial Strategy Zones – previously Freeports and Investment Zones - are designed to attract investment through (for example) NI holidays incentivising localisation of manufacturing businesses. **Government should proactively use this type of incentive to attract investments where job creation is a direct benefit.**
  It is important to note that investment decisions in automotive are long term – so **labour rate incentives in freeports should not be time limited**, but reflect best practice in Free Zones elsewhere, providing certainty of competitiveness over multiple model cycles.

Recommendation:

While the UK cannot seek to compete solely on cost, it is essential that all parties recognise the reality that that **labour cost is a critical determinant of investment** – and that while the UK is broadly competitive to near neighbours, labour costs elsewhere are a significant advantage. Government must work with industry to demonstrate that the broader competitive advantages of the UK can outweigh this factor – and target intervention to minimise the labour differential.

Additional burdens on salary bills can tip a business case from competitive to uncompetitive easily, and **government must avoid additional burdens and carefully consult industry ahead of proposed changes**. At the same time, there is the opportunity to attract investment through activity to mitigate the impact of labour on investment opportunities in new and existing plants.

Tuning the apprenticeship levy to enhance flexibilities on utilisation and pooling **will support existing investors to reskill and take advantage of the opportunities of electrification and connected vehicles.**

Proactive utilisation of labour incentive in industrial strategy zones will unlock investment opportunities – supporting the clustering proposed in the Industrial Strategy**.**

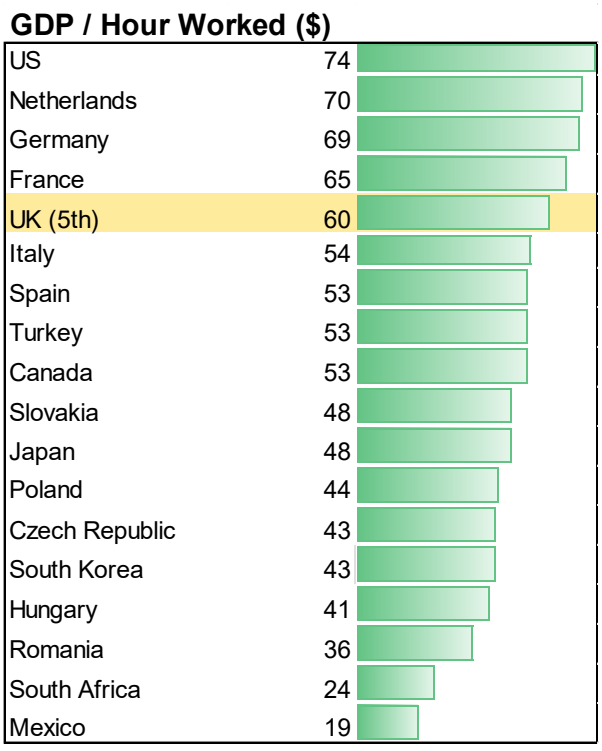
I-2 Labour Productivity

UK labour rates are higher than in other comparators – as outlined earlier – but this has helped drive the sector's impressive productivity improvement over recent decades.

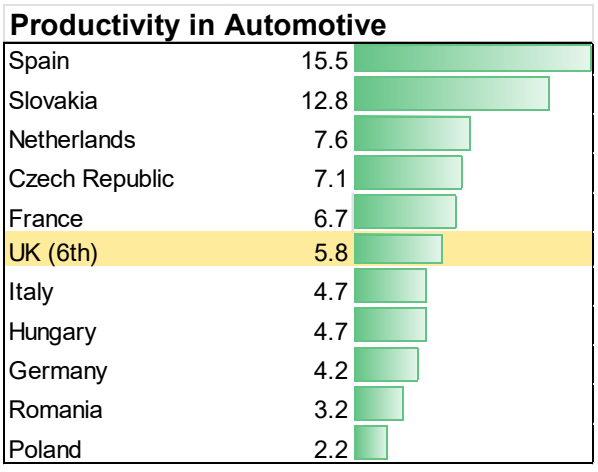
While the OEMs continue to drive productivity, it is critical to provide the correct environment to allow supply chain to invest in the skills and capital needed to support manufacturing through competitive supply of key components in the UK.

Rank:	5/18 (GDP/Hour worked)
Perception:	**2.77** / 5 (5 = strong)

- While overall labour productivity in the UK has struggled to improve, **productivity in automotive manufacturing has long been a positive outlier in the UK**, with the sector demonstrating a particularly high level of productivity over time. Between 1980 and 2018, the UK saw a thirteen-fold increase in productivity[1], significantly outpacing the four-fold increase observed in the rest of the manufacturing sector. Despite recent production volume decline impacting sector productivity, OEMs continue to innovate, and several UK factories have been called among the most productive in their respective global footprint.
- However, productivity falls off significantly when we move outside of the OEMs to suppliers. The SMEs which make up the vast majority of UK automotive supply chains, frequently have **neither the same levels of investment nor the resources to undertake the productivity improvements** seen in OEM facilities.
- This poses a threat to the industry as a whole. The strength and resilience of the supply chain delivering parts to UK OEMs is a critical factor, and as the volumes of those OEMs fluctuate, this



OECD (2022)



ACEA, SMMT (2022)

[1] An Engine of (Pay) Growth? Productivity and Wages in the UK Auto Industry | NBER

makes productivity to be an essential component of a competitive business environment.

- **Productivity is critical to enable this supply chain to survive**, and funding to support investment should be available to improve productivity. In particular, it is important to recognise that the value for money associated with productivity improvement is not necessarily in adding jobs in the short term; the value to the UK economy is in providing a solid foundation for ongoing investment and creation of high value employment in the medium and longer term.
- UK OEMs have achieved their productivity not only through capital investment, but by the high level of skill in lean manufacturing which characterise their workforces. Industry and government should consider **developing and revitalising programmes to coordinate and roll out productivity training to the supply chain**, by providing assistance, funding, and practical support to enhance supply chain productivity and resilience through a lean approach. This kind of framework could provide wider benefits to the UK – levelling up manufacturing productivity across multiple sectors, drawing on the strength of automotive industry. We welcome the focus from the Industrial Strategy on supporting skills development and access to talent within automotive (as part of one of the I-8 industries). We hope to be able to engage further with government on these programmes from an early stage to ensure we can tailor these packages to best support both OEMs and the broader supply chain in improving and maintaining their productive advantage.
- Furthermore, the UK should utilise the opportunity of our automotive manufacturing sector to the benefit of advanced manufacturing in the UK. The inclusion of advanced manufacturing as an Industrial Strategy sector is much appreciated – key to success will be to facilitate technology and skills exchange between the priority sub-sectors – for example, automotive excellence in lean manufacturing can benefit companies across advanced manufacturing, while the UK's battery and advanced materials industry can be a competitive advantage for auto manufacturing, if supported to grow productivity and competitiveness.

Recommendation

While high productivity is a characteristic of the industry as a whole, it is not consistent across the supply chain. Government and industry should work to address this with urgency.

As a foundation, there should be **coordination and funding to enable the more productive parts of the industry to train and develop the broader supplier base in lean manufacturing and productivity.**

Funding and support should also be made available to enable investment in productivity improvement through advanced manufacturing technologies and digitisation – with a judgement on **value for money based on long-term productivity gains rather than short-term job creation.** Industry should work proactively with Skills England and government to develop concrete proposals in line with the Industrial Strategy.

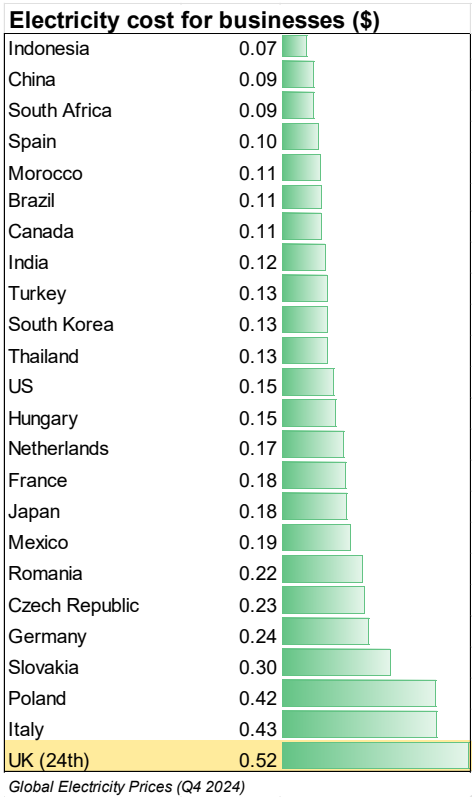
I-3 Energy Costs

While 'energy cost' itself is not the highest ranked KPI in terms of importance, it is rated as an "important" or "very important" factor by some 75% of those responding to our survey – and the UK's performance is strikingly uncompetitive with electricity costs the highest of 24, whilst gas is mid-table. As one of the key two costs in automotive manufacturing, urgent attention should be made to removing this barrier to the business case for new investments.

Rank: 7/17 (Gas)* / 24/24 (Electricity)

Perception: **2.16** (5 = strong)

** NB – gas price KPI as judged worse than current levels due to impact of Ukraine conflict at time of latest KPI generation*

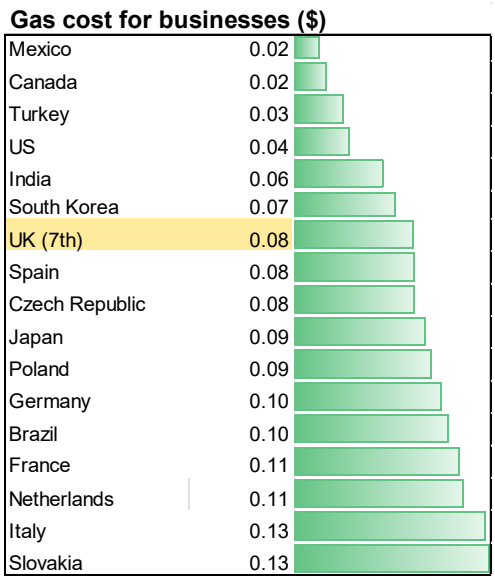


Global Electricity Prices (Q4 2024)

- Our survey presents a bleak picture for this key competitiveness driver, yet tackling it successfully offers significant benefits for both manufacturing and market transition to zero-emission vehicles.
- The UK has the **highest industrial electricity prices among all 24 competitor economies included in our study, and more than twice the cost of our EU counterparts.** Electricity prices are becoming increasingly important as industry shifts toward producing electrified vehicles.
- For automotive investment, manufacturers need good access to low-cost electricity, as **EV components are more energy intensive to make** and plants are working to decarbonise their operations.
- Gas prices, whilst reduced from their peak in 2022, are still historically high. The UK is ranked 7 of 17 for gas prices, but with the decarbonisation agenda electricity prices will become ever more important.
- Securing competitive, predictable power rates today is **essential to protect margins** and ensure the UK remains a top destination for the next generation of vehicle manufacturing.
- While the **availability of low carbon intensity energy** was seen as important by more than half of respondents to our survey, and while this is something that is likely to eventually provide a competitive advantage to UK manufacturing, it is notable that energy costs were judged "very important" determinants of investment competitiveness by more than four times as many respondents.

Fixing energy costs now is vital to ensure the industry can survive and transition to a low-carbon manufacturing future.

- In light of this, the Industrial Strategy's new British Industrial Competitiveness Scheme will positively impact electricity prices and therefore inclusion of automotive as a key industry has been a critical and positive development and should help cut electricity costs by 20-25%. The Network Charging Compensation scheme is similarly welcome.
- The British Industry Supercharger will provide even greater support to energy intensive sectors, including EV battery manufacturers, but we believe more automotive businesses should be able to access this additional level of support.



Global Natural Gas Prices (March 2025)

- Measures on GB Energy are welcome, so that there can be greater control on energy prices, security of supply, as well as decarbonisation of energy supply. Ensuring that electricity prices remain competitive is essential.
- Measures to accelerate grid connection schemes will be vital to attract new investment – in particular where new investments require significant power. As set out in our investment case studies, having sites with infrastructure in place is a key factor in automotive investment.
  At the same time, grid connections to help industry decarbonise – for example, investment in new renewable energy generation – will facilitate industry to accelerate the UK's decarbonisation at key manufacturing sites.
- It will be vital for government to work closely – and rapidly – with industry to agree the detail of these initiatives and implement them quickly.
- Industry supports the government's vision to achieve a carbon neutral future for advanced manufacturing; at the same time, it is **critical to remove the cost barriers to competitive manufacturing today** to ensure the industry can contribute fully to this goal.

Recommendation:

The intent of the initiatives to tackle energy prices and grid connections set out in the Industrial Strategy are welcome first steps. It is crucial that government and industry work closely together to **develop the detail of these initiatives in collaboration** and **rapidly implement them**. All automotive should qualify for the new BICS, but equally we should get the same support as EIIs and so access to the Supercharger.

While gas costs are less of an immediate risk, these should be monitored closely to ensure the UK remains competitive and takes urgent action where there are risks. Cutting electricity prices, speeding up grid connections and delivering on decarbonising electricity supply – and all at pace – is critical as the auto sector (and our products) pivot to become more electricity intensive.

Finally, support energy efficiency improvements, an **enhanced and simplified Industrial Energy Transformation Fund should be re-introduced.**

Part II: Supply Chain

Without access to a healthy local supply chain, competitive manufacturing would not be possible in any country. In the UK, where challenges with logistics to and from our closest European markets, and with rules of origin in order to expand global markets, this need is especially key.

While electrification presents some opportunities to create a new supply chain for ZEV drivetrains, our survey was unequivocal: **without urgent action to protect and strengthen the supply base for traditional components the industry will not survive in its current form to gain those benefits.**

Summary of Recommendations

- Develop **targeted packages** to improve supply chain productivity, energy reduction, training & retraining and business management **for SMEs,** with **financial support from government** & **technical support from OEMs.**
- Re-establish **support for export** – for example trade shows.
- Develop support to **de-risk private sector finance** and provide meaningful **replacement for ERDF.**
- Increase coordination of **OEMs & local authorities** to **identify & proactively support high risk suppliers.**

Strength and resilience of supply chain

A healthy supply chain is key to maintaining automotive manufacturing in the UK. While the industry is highly integrated with its European neighbours, it is vital to have high value suppliers based in the UK for resilience, and also to benefit from global export opportunities by securing a high level of local content. Producing ZEV parts can be an opportunity, but it is more urgent to protect our existing supplier base – and the reduced volumes OEMs may see during the transition to future ZEV models are an additional burden for UK suppliers. Providing joined-up support to the supply chain is a key priority of the Automotive Council, and these efforts must be redoubled to protect the UK's supply base.

Rank:	8/11 (Supply chain GVA)
Perception:	**2.74** (5 = strong)

- The existence of a healthy supply chain in the UK absolutely underpins the ability of the country to attract investment in automotive plants. The automotive industry is built on "just-in-time" supply chains; without these, large **manufacturing plants cannot achieve competitive cost or market flexibility.** The industry is particularly international and characterised by global parts sourcing; however, there is a need for larger parts and higher value parts, as well as those with greater variation, to be **produced close to the point of fit.**

Absolute GVA output, million Euros

Germany	€ 38,209
Czech Republic	€ 12,736
Poland	€ 10,890
France	€ 7,610
Italy	€ 6,876
Romania	€ 6,515
Spain	€ 5,334
UK (8th)	€ 4,717
Hungary	€ 3,521
Slovakia	€ 2,905
Netherlands	€ 1,251

CLEPA based on Eurostat data (2023)

- Importantly, our survey highlighted that whilst announcements relating to ZEV components are a strong and significant signal of the UK's intentions for ZEV production, the key challenge facing industry is maintaining the competitiveness and viability of our **current** supply chain. **Without action to support our current supply chain, the opportunities presented by ZEV component investment will not be realised.**
- Assessing the strength and resilience of the supply chain is challenging. Data on its size shows the UK has the 8th largest supply chain in Europe, based on GVA to the domestic economy, it is also the ninth largest by employment and 5th largest by number of businesses with more than 250 employees. Respondents to the survey ranked the resilience of the supply chain

Number of employees in supply chain

Germany	386,754
Spain	212,500
Poland	172,177
Italy	163,202
Romania	156,818
Czech Republic	131,803
France	103,679
Hungary	77,218
UK (9th)	68,670
Slovakia	66,617
Netherlands	6,558

CLEPA based on Eurostat data (2020)

quite highly in the UK, 9th of all the KPIs. Nevertheless, supply chains across the auto sector are under significant strain.

- Recent events have increased the importance of supporting the UK supplier base. Supply chain disruptions during COVID reinforced the importance of local supply, as long and complex supply chains are inherently riskier. At the same time, the changes to industry due to the UK's exit from the European free trade zone mean that rules of origin are becoming ever more important – both to enable supply to our close neighbours in Europe, and to help the UK to benefit from broader international trade opportunities.
- Unsurprisingly, the competitiveness drivers and countermeasures in the other chapters are highly relevant to the UK's supplier base. In very many cases, the need is more urgent. Unlike OEMs, **suppliers often lack sufficient staff or skill needed to take significant action by themselves to increase the competitiveness of their operations.** For example, unlike major OEMs who can run their own training and development courses to support their large workforces, suppliers require skilled labour at the point of entry into the business. This, in turn, leads to challenges in producing products with high productivity – further compounding the impact of the UK's relatively high labour costs. Without teams able to work on funding applications, application for government support to make breakthroughs in product and productivity are unachievable.
- OEMs are working hard to support their suppliers, but during the transition to zero emission vehicles, both OEMs and suppliers will need to survive significant transformation, including periods of low volume. Many OEMs are diversifying their business, seeking new markets and projects to survive – but this is especially challenging for suppliers, as the volume challenge is faced by all OEMs at the same time. Rather than a cyclical approach based on model changes, the industry is transforming all at once.
- Whilst support for individual suppliers and for new businesses looking to grow advanced technology is welcome, there is an urgent need for government and industry to increase efforts in a more systematic fashion to protect the entire supply base.
- At the same time as protecting existing suppliers, we should not discount the ambition to grow the supply base.
- The Industrial Strategy's approach to clustering, including the Strategic Sites Accelerator, can be a driver for growth in the sector – as the industry evolves towards future mobility. In particular, linking clustering to Industrial Strategy zones – creating a bank of sites ready for investment – connected to infrastructure, with accelerated planning and access to incentives – can be a key weapon in the ambition to grow automotive manufacturing in the UK. Speed and agility is of the essence and providing well-packaged solutions of land, transport and energy links, in a framework of joining up national and government support with a welcoming and 'can do' attitude would deliver real results.
- In July the Government published an SME strategy, which welcomely included measures to simplify access to government support, including access to export markets and finance, the British Business Bank and management and AI skills support. There have been a raft of new strategies and programmes recently and

so ensuring SME are aware and accessing what is available is critical. Further support on energy, process improvement and measures to identify and support high risk or critical businesses would be very positive.

Supply Chain Access to Finance

- Supply chain access to finance is key. While OEMs generally secure competitive credit lines, **many Tier-2 and Tier-3 suppliers report a sharp reversal in bank lending appetite.** According to UK Finance, gross lending to manufacturing fell in 2024, bucking the broader SME lending recovery seen elsewhere in the economy. Simultaneously, high-street banks have signalled a pullback from capital-intensive industries, raising approval thresholds and centralising decision-making in distant head offices rather than local branches. According to the British Business Bank 41% of manufacturing SMEs state they are most impacted by gaps in finance supply. The combined effect is acute: SMEs struggle to access working-capital facilities, defer critical productivity upgrades and find merger or acquisition financing merely aspirational. Without targeted intervention, **this liquidity squeeze risks fragmenting the supply base** at precisely the moment when scale, resilience and digitalisation are most needed.
- A striking symptom of the wider pullback in automotive financing surfaced in November 2024, with the collapse of Britishvolt, the much-publicised gigafactory start-up in Northumberland, which entered liquidation after repeatedly failing to secure follow-on capital. This is not a uniquely British phenomenon: the case of NorthVolt also demonstrates the challenges the industry is facing to transform. This demonstrates that lender and investor appetites have retrenched sharply, not because UK suppliers lack technical prowess, but because cash-flow volatility and shifting EV subsidies have **made the sector appear higher-risk in the eyes of both banks and private-equity backers.**
- Furthermore, government funding support for SMEs has also been reduced in the post-Brexit landscape. The phasing out of the European Regional Development Fund (ERDF) has not been backfilled by any domestic equivalent at comparable scale, leaving UK automotive SMEs without the easy-access grants and co-investment support they once relied on. The newly launched DRIVE35 programme, simplifying investment towards manufacturing transformation, is welcome – however, SMEs require support in more traditional areas. The establishment of a type of UK SME Automotive Growth Fund would be incredibly welcome to the UK supply chain.

Recommendation:

Government and industry must coordinate to prioritise provision of support to suppliers during the transition to the next product cycle. This includes productivity improvement, energy saving, training and re-training, as well as business management for product diversification. As small businesses, in many cases it is impossible to provide this internally.
Government and industry partnership is crucial to address this – for example, providing funding to enable suppliers to learn from the larger companies.

At the same time, supporting business growth will help suppliers become more resilient to market change. More tactical **government support for exports should be given,** although we welcome the new Ricardo Fund**.**

Support for finance - both access to **private sector finance** and **public sector support** including replacement for ERDF **– is vital for the sector to survive and transform. Early roll out and dissemination of new measures from the industrial and SME strategies is imperative.**

Supply chain businesses should be able to access new energy support measures, like the British Industrial Competitiveness Scheme.

Finally, government should work closely with OEMS and local authorities to **identify high risk suppliers in advance of business crisis** – targeting support rapidly to protect key suppliers before they are forced to re-source from outside of the UK.

Much of this is identified as priorities in the Industrial and SME Strategies; it is crucial that initiatives are rolled out at speed as to safeguard the supply base in the UK before irreversible damage is done.

Part III: Trade/Government engagement

The global industry is increasingly driven by geopolitical factors, and our next category – trade and government engagement – reflects this. The existence of the Automotive Council itself – and indeed its consistency through multiple governments – is evidence of the UK Government's engagement with the automotive industry. The Industrial Strategy – which seeks to address many of the issues raised by this report – is a further example. And it is encouraging that the policy of the government is to seek opportunities for improved international trade while also aiming for a strong and collaborative relationship with the EU, our biggest and closest trading partner. Recent global events have focused attention on trade with the US; this is our second largest export market for vehicles, notably for premium and luxury brands – and so the achievement of an early trade deal is positive.

Competitiveness drivers in this category illustrate some of the strengths of the UK which should be preserved, whilst also highlighting areas where industry and government can work to create a more competitive environment. This section is categorised by drivers which are largely within the relatively rapid gift of the Government working with industry to deliver directly through policy interventions.

Trade and Government Engagement

Openness to trade

- Priority must be **securing quality trade deals with the EU and export markets** to ensure the automotive sector is protected – particularly the supply chain.
- Act to provide comprehensive support for exporters.

Size of government incentives

- As industry transforms, governments globally will continue to review their state aid regimes while competing for globally mobile investment. **Government and industry should work to ensure that the UK regime remains competitive**.

Ease of accessing government incentives

- **Reform to make applications and support as simple, speedy, and effective as possible must be sought**.
- **Concierge, single contact point-type services** have been cited as contributing to attracting investment in other nations – **this should be introduced at a cross-government level with the authority to act across government** (not within a single department).
- Building on the success of APC, the UK should benchmark the best in the world for attracting investment, with a **targeted approach to comprehensive and tailored intervention**.

Government strategic engagement

- The UK Government and the industry have built a strong working relationship and trust base which must continue – however, **Whitehall should take a whole-government approach to attract investment in a coordinated way.**

Political stability

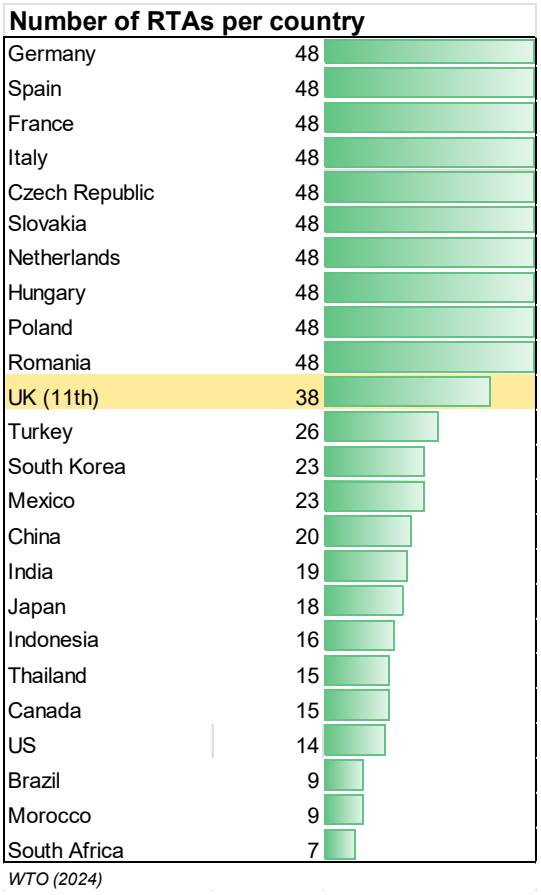
- Government should continue to have an **open and collaborative relationship** to develop policy in predictable ways in partnership with industry, which reflect the political stability of the UK and the robustness of its institutions.

III-1 Openness to Trade

International trade is fundamental to the UK automotive sector – both as a key driver for the industry and as a contributor to the balance of trade. The UK should continue to prioritise a strong relationship with key markets – increasing ties to the EU, while pursuing targeted agreements with automotive trade in mind to develop global export opportunities.

Rank:	11/24 (Number of RTAs)
Perception:	2.59 / 5 (5 = Strong)

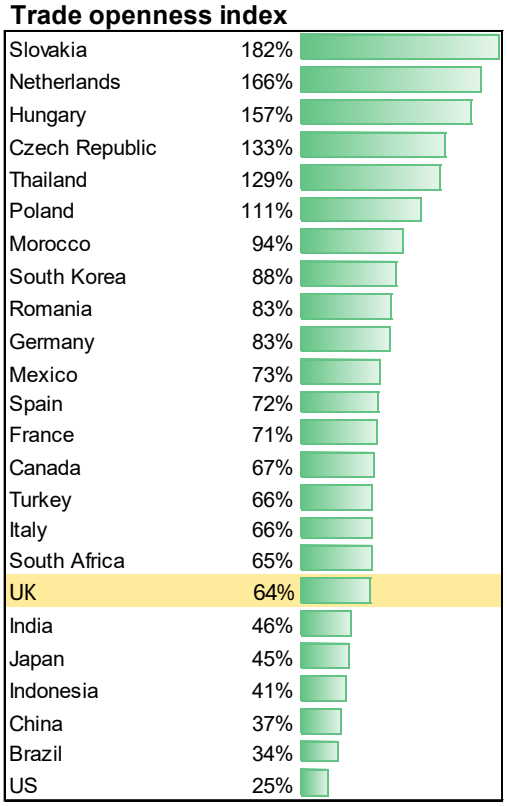
- International trade is fundamental to the UK automotive industry, and vice versa. **Vehicles are the UK's single most valued trade good**, with the sector accounting for £44 billion exports in 2024. Eight in ten vehicles produced in the UK are exported, with 54% of those destined for the EU – but the industry is also diverse, exporting to more than 140 markets worldwide.
- Automotive Manufacturing is reliant on international trade, and the just-in-time supply chains built up during the UK's membership of the EU allow for a level of resilience and diversity, enabling the industry to produce the variation and variety of vehicles which characterise automotive manufacturing in the country.
- The UK is an attractive country to trade from, and the ambition to be a centre for international trade is admirable – especially as the world moves to an increasingly protectionist stance.



WTO (2024)

- For volume manufacturers and suppliers the main destinations for UK exports is likely to remain Europe. The Government's actions to reset relations and build a strong partnership with the EU as a priority are welcome.
- Given the importance of the EU, government should avoid undue regulatory divergence from this key market. Fundamentally, OEMs operate on a regional basis, and **positioning the UK outside European product regulations will allow little advantage for manufacturers**, while adding unwelcome challenge to sales in the country.
- For premium and luxury brands the US is a key trading partner – typically accounting for a third to half of output. Having automotive front and centre in the US-UK trade deal agreed in May was critical for the auto sector. The two sides must now work to ensure the quota does not stifle growth and the UK remains competitive as further deals are struck.

- A number of recent trade agreements (for example the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the UK-India Free Trade Deal can boost post-Brexit trade opportunities.
- Although imports from jurisdictions with heavy subsidies can undercut our domestic manufacturers, the UK can nonetheless prioritise deep, high-quality free-trade agreements. By embedding intelligent safeguard mechanisms within those deals, we can harness the benefits of open markets – expanding export opportunities for UK producers – while mitigating unfair competitive pressures. The industry remains committed to free trade as a driver of UK competitiveness despite the tumultuous international landscape.



Our world in data (2023)

Recommendation

The UK should continue to develop a **collaborative, deep trading relationship with the EU** while **seeking trade agreements globally** – focussing on the **quality of deal rather than simply quantity**, making bespoke arrangements to protect the automotive sector, and consulting closely and widely with industry to understand the optimum regulations to growing export opportunities.

To make the most of opportunities, **government should act to provide comprehensive support for our exporters**. This includes **fully resourcing the FCDO, DBT, and overseas commercial desks**, and supporting and funding the **immediate re-introduction of tradeshows** (eg Tradeshows Access Programme – TAP).

III-2 Size of government incentives

The UK has signalled its commitment to automotive manufacturing through development of a competitive state aid regime. This is welcome. To ensure a level playing field for companies competing to bring investment to the UK, government and industry should continue to monitor to ensure the regime remains among front runners.

Rank:	5/23 (GERD performed by government, %GDP)
Perception:	3.12 (5 = strong)

- The overall level of investment in R&D performed by government is relatively high versus competitors for investment and has increased since earlier reports.
- A state aid regime including generous RDEC (R&D expenditure credit), targeted direct aid delivered through organisations such as APC UK – along with a competitive corporation tax regime – demonstrate a positive commitment to the industry and reflected in the perception score of the UK. The DRIVE35 programme should enhance this.
- That said, many countries are competing hard to attract investment in automotive, looking to take advantage of the shift to ZEVs to reshape the footprint of automotive manufacturing. Government support should be targeted to neutralise the UK's disadvantages – for example on labour tax / National Insurance holidays, labour cost, capital investment and training to improve productivity and cheap green energy generation.
- Assessment criteria should prioritise these topics when judging availability and size of grants. The opportunity for the UK industry is to **make investments which will support long-term industry success, while ensuring sustainable long-term employment in the long term. An over-focus on short term job creation will not generate this future-proofing.**
- One opportunity is to focus such interventions – for example, taking advantage of the Industrial Strategy zones to build clusters where automotive suppliers are able to invest cost effectively. To facilitate this, it is critical to understand the long-term nature of investment; free zones elsewhere in the world do not have time-limited benefits but are able to operate with the certainty of long-term competitiveness to supply industry over multiple product lifecycles.
- One further area the industry would welcome additional support is in **demand-side interventions to accelerate ZEV adoption.** The new £650 million Electric Car Grant (ECG) is a welcome measure. Charging networks for electric vehicles, and refuelling for hydrogen mobility, must be abundant, accessible, and affordable and there is a risk of falling behind. Recent new support for infrastructure, grid connections and planning is welcome and must be delivered at pace. While the majority of vehicles produced in the UK are for export, a strong domestic environment that supports consumer demand is a key determinant in assessing the viability of ZEV manufacture.

Recommendation

Given the rapidly changing industry and global trading environment, governments globally will continue to review their state aid regimes while competing for globally mobile investment. **Government and industry should work to ensure that the UK regime remains competitive.**

III-3 Ease of accessing government incentives

While proposed reforms to the UK's state aid regime are extremely positive, it is still the case that the UK is perceived as having slow and complex applications. This could materially impact investment in the industry, driving positive economic activity which will strengthen automotive manufacturing and the supply chain for future growth.

Objective KPI under consideration	
Perception:	2.64 (5 = strong)

- In the race to secure future ZEV manufacturing and mobility investment, governments across the globe are making huge financial investments to attract advanced manufacturers. **A welcoming and effective state aid system, alongside a competitive tax regime, is a must.**
- The UK's generosity is broadly competitive (see previous section). However, given the speed of change in the industry, the effectiveness and speed of accessing incentives is also a critical success factor for attracting investment.
- Following the Government's announcement of £2.5 billion support for the industry, a reform of the state aid system is under way, and this is to be welcomed. The complexity of the previous system is a disincentive – especially to smaller firms; and for all firms a simpler set of subsidy pots will enable easier and more transparent application and decision making. All too often, external consulting firms are required to navigate these complex applications – rather than having simple and accessible criteria that manufacturers can complete themselves.
- Significant challenges still arise from the long lead times between requesting, approving, and receiving funding. **The automotive market is volatile and investment windows are small; industry experience is that other countries are able to make decisions quickly and clearly.** In an industry used to lean processes and with a requirement to make decisions quickly, **a rapid and transparent assessment of aid applications is a must.**
  The most competitive governments combine a clear and comprehensive system for state aid with a simple accessible "concierge"-type service – a single point of contact with the ability to coordinate seamlessly and rapidly across the whole of government, and who can guide state aid applications effectively to enable investors to build a fully tailored package of support. The case study on Hyundai's investment in the UK illustrates this approach well. APC has provided some excellent support; this should continue and expand – including targeting smaller but crucial supply chain investments.
- The UK's competitors for investment are taking action. Published metrics show that under Horizon 2020 the average interval from final proposal submission (or call deadline) to grant signature was around 187–193 days, with 95 % of agreements signed within the eight-month target window (Special Report 28/2018: Simplification measures into Horizon 2020). A post-programme evaluation report even quotes the figure of 192.5 days as the mean "time-to-grant," down from over 300 days in FP7 (HORIZON 2020 - First Results).

While this lead time is still significant, it at least demonstrates a recognition of the need to tackle this KPI – and provides a baseline against which the UK, with its additional flexibility outside the EU, should treat as a maximum benchmark.

- Finally, in light of increasing regional devolution, and the role of local authorities in stewarding local economic growth, increased collaboration with regional authorities, and critically between regional authorities, should be developed - with a specific brief to improve competitiveness and attract investment to the UK.

Recommendation

Industry welcomes the proposed reforms to the state aid system. **Consideration should be given to streamlining applications and the speed to reach decisions.** Single access points/concierge type services coordinating seamlessly across government departments have proved effective in other markets and such services to make applications and support as simple, speedy and effective as possible must be sought.

Building on the success of APC, and taking in to account the Harrington Review of Foreign Direct Investment, the **UK should benchmark the best in the world for attracting investment,** with a targeted approach to comprehensive and tailored intervention with national and regional bodies working in close collaboration. Concierge type services, offering a single contact point – and a simple, transparent process – have been cited as contributing to attracting investment in other nations.

III-4 Government strategic engagement

The consistent engagement with industry shown by the continued work of the Automotive Council is a clear strength of the UK automotive industry. Nevertheless, there is room for improvement in terms of coordinating initiatives across government and urgency of implementation.

- Objective KPI under consideration
- Perception: 2.98 (5 = strong)

- The collaboration between government at both a political and civil service level, exemplified by the Automotive Council, can be a clear competitive advantage for UK Automotive. The industry in the UK is characterised by OEMs which are either UK brands with global ownership or fully global brands, and the Government's approach to work for the benefit of all investors in the UK, regardless of head office location, is a strength. It is important that the industry players, through the Automotive Council, continue to collaborate – while acting with clear attention to avoid any non-competitive practices – to further strengthen the UK automotive sector as a whole.
- Joint initiatives such as the Advanced Propulsion Centre, UK Battery Innovation Centre, and collaborations with organisations like the Advanced Manufacturing Catapult, are strong competitive advantages for UK Automotive. They help accelerate transfer of knowledge between the UK's world leading academic sector and the Automotive manufacturing industry, while helping to target state aid and systematic interventions towards the priorities of the sector. Government has a key role in safeguarding and supporting these institutions; it also has a responsibility to maintain continuity of offering – enabling long-term planning despite changes in policy detail.
- However, despite this intensive engagement, **tangible policy outcomes have been comparatively scarce.** Key commitments have yet to materialise at scale or pace. Individual initiatives frequently stall in consultation or pilot phases, leaving the underlying structural challenges unaddressed. The Department for Business and Trade (DBT) has directly and intensively engaged with industry to understand the requirements for competitiveness and propose clear countermeasures. However, associated departments across government – for example, Department for Transport, Department for Education, Department for Energy Security and Net Zero or Treasury - can at times appear more focussed on competing policy agendas, and this does not enable joined up policy making, especially now through the lens of the Industrial Strategy.
- An example of more outcome-led strategic engagement would be Japan's decarbonisation agenda. Anchored in the Green Growth Strategy and GX Basic Policy, this demonstrates a seamless fusion of policy and industry action. By treating electrification, hydrogen and e-fuels as equally valid pathways, pooling multi-billion-dollar public–private co-investment for gigafactories and hydrogen refuelling networks, and embedding clear multiyear roadmaps with carbon-pricing signals, Japan has delivered tangible outcomes: operational battery-cell

plants, a growing hydrogen-refuelling infrastructure and regulatory certainty that underpins OEM technology roadmaps. This level of strategic engagement, with delivery mandates, public scorecards and dedicated funding vehicles, ensures **policy never stalls in consultation but translates swiftly into factory floors and refuelling stations.** The UK can look to emulate this model by adopting technology-neutral incentives, establishing large-scale co-investment funds, publishing binding long-term decarbonisation and zero-emission targets, and holding regular public reviews of progress, thereby turning dialogue with industry into concrete green-growth results.

Recommendation:

The UK Government and the industry have built a strong working relationship and trust base on honest dialogue over the past decade, through **the Automotive Council, as well as related organisations like the APC, industry associations like SMMT, and with individual industry player**s.

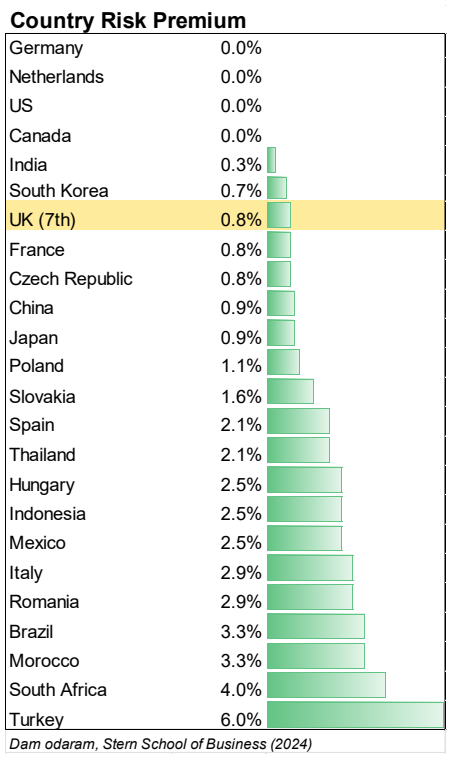
However, this has been driven by the Department for Business and Trade. **Whitehall should take a whole government approach to improve the competitive environment for automotive manufacturing – and more broadly, for advanced manufacturing – in a coordinated way.**

III-5 Political Stability

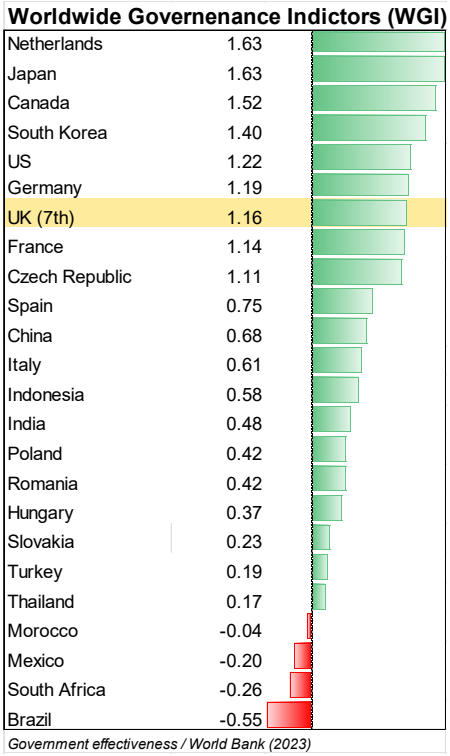
In a highly volatile industry, stable political institutions and policy are a key competitive advantage that help secure long-term investment in automotive. After a period of significant uncertainty, the collaboration between government and industry is now strong, and the opportunity is to build on this competitive advantage as political stability in other global regions becomes more uncertain.

Rank:	7/25 (country risk premium)
Perception:	2.46 (5 = strong)

- The pace of technological and market change, from electrification and supply-chain change to shifts in ownership models, amplifies uncertainty for long-term capital investment. In this environment, political stability and predictable policymaking become as crucial as cost competitiveness, due both to supply chain security and because industry needs certainty to plan factory upgrades, adopt new technologies and secure sustained growth. **Therefore, industry seeks not only a competitive environment, but also one where there can be certainty.**
- The era of profound uncertainty which surrounded the UK's departure from the EU, and negotiation towards a new trade deal, are a telling case. At the time of the negotiations, it was striking that the perception of the UK as a politically stable, low risk place to do business had changed almost unrecognisably – even as underlying competitiveness measures remained positive. Our 2018 report noted this risk – and indeed, the level of investment announcements during that period was minimal, while successful conclusion of negotiations with a stable agreement unlocked significant investment announcements.
- A collaborative approach, with stable and predictable government, and with a long-term perspective to enable sustained and consistent interventions to improve fundamentals such as skills and productivity is a must to continue the UK's recent success in attracting automotive investments. This is apparent in, for example, the consistency of ministerial portfolios between



Dam odaram, Stern School of Business (2024)



Government effectiveness / World Bank (2023)

opposition and government, and in the continuation of Automotive Council led collaborations like the APC, despite changes in government.

- The UK should continue to act as a champion of stability. As instability threatens to destabilise other regions, an investment location where the strength maturity and stability of the country's institutions, the rule of law, and the consistency of policy - developed openly and in collaboration with industry - can only be a core strength to attract long-term investment.

Recommendation

The political stability of the UK, and the robustness of its institutions, are key strengths which can help de-risk investment and are a core foundation for competitiveness. **Government should continue to have an open and collaborative relationship to develop policy in predictable ways in partnership with industry.** This approach will secure increased competitiveness, and industry investment, over the long term.

Part IV: Availability and quality of labour

- Unsurprisingly, labour is an absolutely key factor in determining competitiveness and attracting investment.
- A huge benefit of a strong automotive industry is that it provides high value, well-paid and skilled employment with opportunities for rewarding careers in communities across the whole of the UK, with notable clusters in the West Midlands, the North East, the North West and the South East.
- By the same token, though, the ability of companies to attract and retain skilled, capable and flexible employees is a prerequisite for investing in the UK.
- Key items for focus were determined to be Availability of Labour and Labour Flexibility These drivers are intrinsically linked.

- *Labour productivity is also key, and linked – however, as this is a direct impact on cost per unit it is covered in that chapter.*

Availability and Quality of Labour

Availability of Labour

- **Incentive and flexibility to encourage and enable employers to invest directly in labour quality is essential**, and government should review schemes like the Apprenticeship Levy to provide greater flexibility.
- **Close collaboration in regional clusters** to identify skills shortages and develop a pipeline of new employees, and resource to retrain current employees.
- Jointly work with automotive in developing the post-16 strategy – with the sector prioritised as a cornerstone industry.

Labour Flexibility

- The industry values a stable, skilled workforce – and one which is able to provide significant flexibility to meet changing customer demand. **Government should avoid overregulation** which could hinder both flexibility and productivity by working closely with industry.
- **Develop employment strategies at a regional level** to ensure a just transition to new mobility.

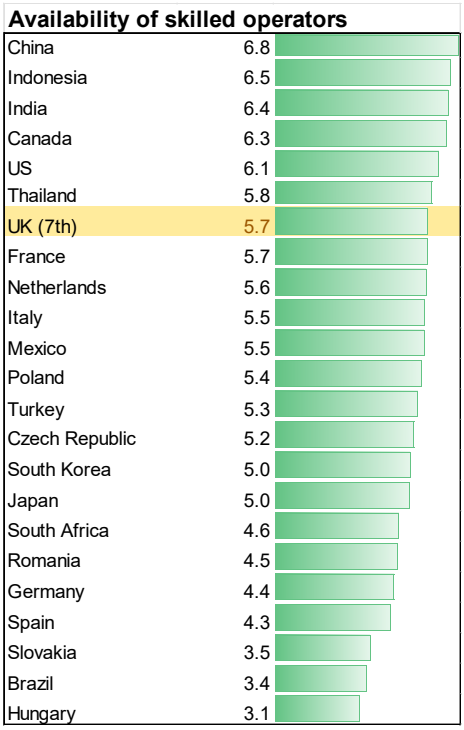
IV-1 Availability of labour

Availability of skilled employees is a critical factor which will determine the future success of the industry in the UK. This means recruiting, retaining and retraining workers in the skills required to design and produce high quality vehicles and parts efficiently, both now and as the industry transitions. This applies to both vehicle technology and manufacturing productivity.

Objective KPI: 7/23 (Availability of skilled operators)
4/21 (Skill level)

Perception of UK: 2.6 / 5 (5=strong)

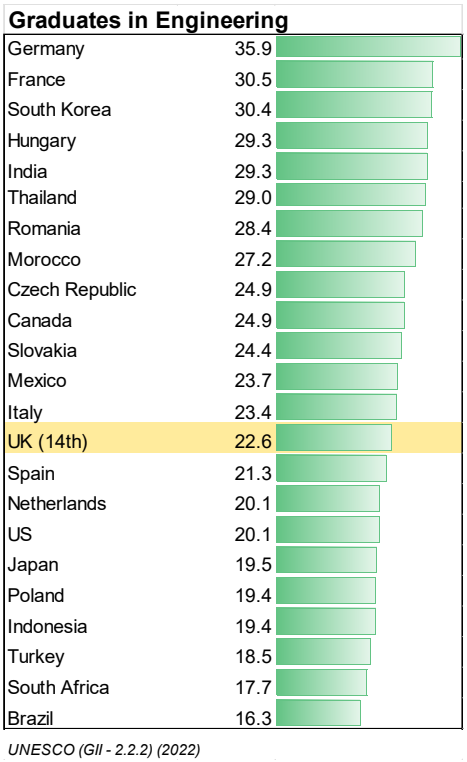
- The UK manufacturing industry is a significant employer, providing high value, high skill and well rewarded jobs - often in areas where there would otherwise be limited access to opportunity.
  This means that attracting and retaining – and retraining – skilled employees is a critical factor in determining the viability of investment.
- While perception of the UK is that labour availability is a significant challenge, availability of skilled labour in automotive is a global problem, and our objective KPI shows that the UK is in amber condition compared to other investment destinations – facing similar challenges, but at a relatively competitive level.



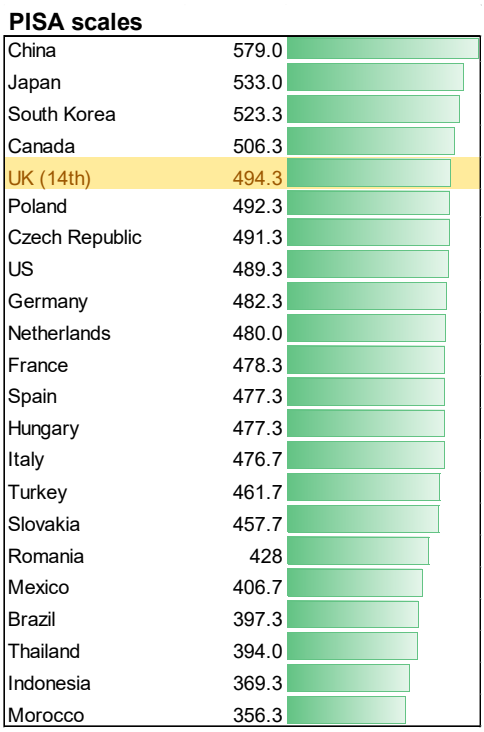
IMD World Talent Rankings (2024)

- Broadly, the automotive manufacturing industry offers a variety of career paths:
  - **Direct roles**, involved directly in manufacturing vehicles, drivetrain components and parts.
  - **Maintenance roles**, involved in the upkeep and improvement of equipment for manufacturing.
  - **Engineering roles** – involved in various parts of the value chain from R&D through to manufacturing support and quality assurance.
  - **Support / back-office roles** from HR management to finance and planning.
- But the depth of the auto sector means almost any job can be undertaken within the sector.
- It is critical to secure labour across all categories. However, feedback from industry indicates that the particular bottleneck faced is with **engineering and maintenance recruitment and retention**.

  It is already challenging to recruit and retain employees into these roles today. The shift toward increased automation, digitisation and AI required both for productivity improvement and for the transition to manufacturing zero emissions and connected vehicles, will further increase demand for these type of roles, and the contents will evolve, requiring significant reskilling. This, in turn, requires significant investment.



UNESCO (GII - 2.2.2) (2022)



OECD (GII - 2.1.4) (2022)

- Employers are already working hard to develop these training interventions but **unlike comparator countries where technical training is highly established, significant investment in the UK is required to upskill recruits towards productive employment** – and to **retrain current employees in new manufacturing and automotive technology**. It is crucial that a joined-up approach, based on industry need, be pursued as a priority by the automotive industry in collaboration with government across all relevant departments.
- Current schemes aimed at addressing the requirements to recruit upskill and reskill, like the Apprenticeship Levy, can be effective - but require additional flexibility (for example, ability to pool the levy more simply, or to spend it on capital investment).
  Across industry, not all employers are able to invest in apprenticeships through the levy, nor do all employers choose to. Automotive is an exception, and utilisation of the levy is the norm among large employers in the industry – indeed many are spending significantly more on apprenticeships than the levy provides. The significant unused levy from companies who do not utilise it should be ringfenced and used proactively to help make high value apprenticeships in industries like automotive financially sustainable – especially focussing on supply chain where the ability to seek out support for training is constrained by organisation size.

UNESCO, others (GCR) (2022)

- At the same time, employer-led education and training provision in industry clusters – such as the Institutes of Technology – can be **effective in developing a pipeline of talent**, and reducing the extent of training required of new hires by employers. The Government's intention to broaden this approach should be welcomed, provided this policy accelerates the transition to an industry-led approach to regional provision.
- The Industrial Strategy packages addressing skills and lifelong learning are welcome; industry will support these – for example, through the Automotive Council Skills Group, by providing clear and consistent direction on emerging skill needs.

Recommendation

Incentive and flexibility to encourage and enable employers to invest directly in this is essential, and **government should review schemes like the Apprenticeship Levy to provide greater flexibility, for example ring fencing levy funds which firms have not been able to use, to incentivise firms who are able to provide value add apprenticeships.**

At the same time, close collaboration in regional clusters to identify skills shortages and develop a pipeline of new employees, and resource to retrain current employees, is vital.

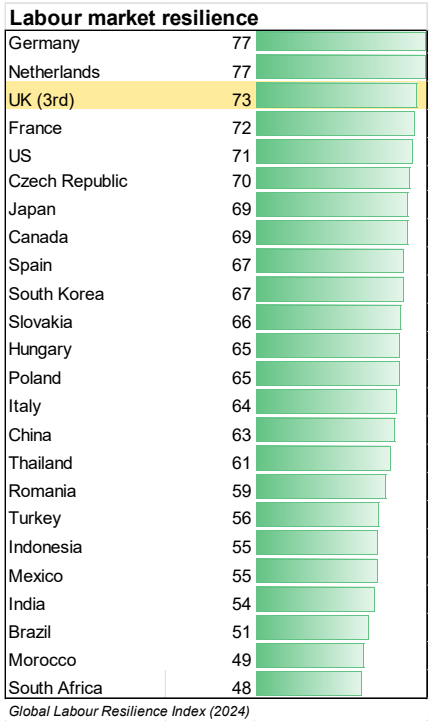
In developing the post-16 strategy, the Government should work closely with automotive as a key sector which can contribute best practice, and should be prioritised as a cornerstone industry, providing high skilled, high value employment across the country.

IV-2 Labour flexibility

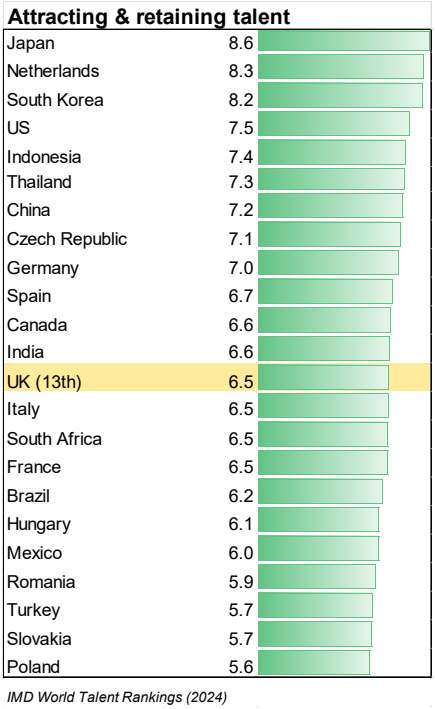
The flexibility of the UK labour market has been recognised as a key strength in automotive since our first report in 2015. It was a critical factor driving competitiveness 10 years ago, and as the industry faces unprecedented change in the shift to electrification and new mobility this becomes ever more important.

Objective KPI:	3/24 (Labour market resilience)
Perception:	3.16 / 5 (5 = strong)

- Retaining strong flexibility enables industry to facilitate movement from one company to another, and from one economic activity to another, allowing firms to efficiently manage production volumes and mitigate risks. This adaptability is a key factor in maintaining the high levels of labour productivity found in the sector, but also to pursue new opportunities as the industry evolves.
- Recent surveys indicate that 87% of automotive employers offer some form of flexible working[2] and the proposed Employment Rights Bill will further enhance this by strengthening workers' rights to include flexible working conditions and protection against unfair dismissal.
- These measures will improve job security and continue the ability of the automotive sector to offer attractive jobs with good wages; indeed, long-term, stable employment is a key characteristic of the industry – needed to ensure the high level of technical skills required to manage advanced manufacturing at volume. At the same time, **care is required to avoid reducing the flexibility the sector has enjoyed, especially where this could risk new investment.**
- This is particularly salient amidst the ZEV transition. This shift requires significant workforce retraining and upskilling, which may require some proactive support from government to maintain this competitive advantage.



Global Labour Resilience Index (2024)



IMD World Talent Rankings (2024)

[2] flexible working

Recommendation

To ensure the flexibility of the industry through the shift to zero emission, connected and automated vehicles, and changing consumer demand, a flexible workforce is critical. This has been, and remains, a competitive advantage for the UK. Government should work closely with industry to ensure that this is maintained**, avoiding overregulation which could hinder both flexibility and productivity.**

At the same time there should be closer collaboration within the industry, and between industry and government, on **regional employment strategies** that ensure job security through industry transition.

International case studies summary

Three case studies were prepared for this report, looking at how vehicle companies chose their sites for new factories and the help they received from national or local government and official bodies to bring these projects to life. The three cases covered the new Hyundai Metaplant in Georgia, USA; the BYD factories now under construction in Hungary and Turkey; and the soon-to-open BMW factory in Hungary. The Hyundai and BYD case studies were prepared using extensive publicly available information; the BMW case study also used publicly available information but also benefited from input from BMW executives, facilitated by BMW-MINI in the UK, for which help we are very grateful.

Case studies are included as an appendix to this report.
Five key conclusions and findings from the case studies are:

1. **The decision on plant location was greatly aided by the "pre-existence" of a suitable, single parcel of land large enough to accommodate a vehicle plant**; in the case of Hyundai in the US advance work by Georgia state authorities to acquire small plots of land to create a larger single site was clearly a positive move.
2. **Ensuring that the single piece of land had already been invested in with appropriate power and other utilities to make the site function as an industrial location is essential**; ensuring also that road and/or rail links to nearby trunk roads or rail links is also critical (BYD's factory in Turkey is, it is understood, being built on the site which had been allocated originally to a planned Volkswagen factory).
3. **Having a single point of contact, as far as possible, in national or state government in the US to deal is much appreciated by the vehicle companies**; reducing or minimising the number of different contacts with which a manufacturer had to work smoothed the process greatly; when the primary point of contact was unable to provide an immediate answer to a specific question or issue, then the ability to pass this enquiry over to a knowledgeable official or agency who could act quickly was highly valued.
4. **In the cases of Hyundai and BYD in Hungary, both companies had experience of working in the country concerned**; building on this experience and having had a positive experience was a further attraction. Winning major new investment is made more likely when there is pre-existing involvement in the country; for the UK, helping potential investors build on the experience of existing R&D or other involvement is likely to provide more fruitful than approaching investors with no experience with the UK; from small things, big things may one day come.
5. **Close co-operation with local universities and further education and training bodies to help train workers is a significant additional positive factor**; demonstrating that leading national educational institutes understand what manufacturing companies want, and need is highly advisable. The UK has some of the world's leading educational establishments; drawing on these institutions' experience and capabilities should be central to any UK offering.

Appendix: Case studies

Full case studies prepared by AutoAnalysis for UKIC report – available on request

The Hyundai Metaplant, US

- >US$8bn investment by Hyundai and suppliers – battery supplier and more than 10 other suppliers already building factories to supply Metaplant; expect more suppliers to follow, as well as additional business for existing Hyundai-Kia suppliers in the area.
- 300,000 upa factory, to make EVs and hybrids, for Hyundai, Kia and Genesis.
- Location in Georgia builds on Kia's presence in the state and Hyundai's presence in nearby Alabama –capitalising on existing successful operations critical.
- Approx. three years from signing ceremony to production of first vehicle.
- State of Georgia support crucial:
    - Created a single parcel of land for the factory.
    - Advance "due diligence" for roads, rail connections and utilities – site was "shovel ready".
    - Regional assistance grants for construction and machinery purchase, supplemented by local government funds.
- Specific number of jobs at specific salary levels to be created by set dates – all clearly set out in agreement between Hyundai and State of Georgia – non-compliance mean significant financial clawback from Hyundai.
- Centralised, single point of contact for Hyundai; State of Georgia government co-ordinated other official bodies. Communication and administration simplified as far as possible, i.e. quasi-concierge service.

BYD in Europe

- Building two all-new plants in Hungary and Turkey.
  Hungary to open late 2025, Turkey in 2026.
- Both plants to have 150,000 units capacity initially:
  - This appears standard BYD practice for new plants.
  - New factories in Thailand (opened July 2024), Indonesia and Brazil (time to be confirmed) also have 150,000 capacity.
  - Smaller JV plant in Uzbekistan, 50,000 capacity, but designed for future growth.
- BYD wants to make one million vehicles pa in Europe in longer term: Hungary and Turkey plants designed for more than double initial output; Future plans will require two more plants, or more.

Hungary:

- Building on experience of existing BYD bus plant in Hungary.
- Extensive interaction with Hungarian government – 224 rounds of negotiations! Hungarian government has invested (modestly) to improve utilities and infrastructure in area around plant: €125 million initially, with further money promised and subject to European Commission approval before being confirmed.
- Parallel investment in battery assembly in Hungary also receiving government support.
- Factory located on Serbia-Hungary rail route, a key part of the Belt and Road routes funded by Chinese banks; €900 million for this section of rail line, from Chinese Exim bank.
- Hungarian government perceived as more pro-China (and Russia) than many other European governments

Turkey:

- Factory site at Manisa previously allocated to cancelled Volkswagen project: much of the site was pre-prepared and ready for BYD.
- Belt and Road southern rail route passes through Turkey on the way to Hungary.
- Steel and other components/material from China will ultimately be supplied via this route for factories in Uzbekistan, Turkey and Hungary.
- BYD attracted by growing EV “ecosystem” in Turkey, including new Turkish company TOGG which is supported by another Chinese battery company, Farasis.
- Unspecified support from Turkish government’s HIT-30 investment support programme:
  - US$30 billion fund, of which US$5 billion for EVs, US$5 billion for semiconductors, US$4.5 billion for EV batteries.

BMW Hungary

Background

- In July 2018, BMW announced that it was expanding its production network with its first European car plant outside Germany. Debrecen in Hungary was the chosen location and at the time BMW was reported to have said the new factory would make both ICE-powered cars and EVs. Since then, however, the decision has been made for Debrecen to focus solely on EVs.
- The plant is currently undertaking the final test and trial phases prior to full start of production at the end of 2025. Once open, BMW will join Audi, Mercedes and Suzuki who also produce vehicles in the country; the Chinese car company BYD is also due to open its factory in Hungary later this year.

Hungary's approach to attracting inward investment

- HIPA, the Hungarian Investment Promotion Agency, made a specific effort in the 2010s to redirect inward investment away from Budapest and into rural areas which the Government want to improve economically, through industrialisation. It put major effort into improving logistics and infrastructure in such areas, and in fostering relations between investors and universities to improve the availability of suitably trained, skilled labour.
- The specific efforts made at Debrecen meant that it was awarded the winner of the best FDI strategy among small European cities by the FT's fDi magazine; and since then it has remained in the top ten worldwide of investment destinations. Such has been the town's success that as of March 2025 it had attracted more than €12.5 billion of capital investment into the local economy, with 21,000 jobs created, although only 9,000 of these have become real jobs as of now; the others will go live as other projects (including non-automotive projects) come to fruition.
- BMW's 1,500+ employees are included within the 21,000 total, but not all of them are currently live jobs.

Debrecen: key facts and figures

- €1 billion were committed to the factory at the time that it was announced in 2018; by November 2022 the investment commitment had risen to €2 billion.
- Production capacity set at 150,000 vehicles pa.
- 1,000 jobs announced at first, but this has risen to more than 1,500 including additional 500 at the battery assembly facility.
- The factory is powered mainly by the largest solar power plant in Hungary, delivered by energy company E.ON.

- Debrecen is a fully vertically integrated factory with its own press shop, welding lines, paint shop, and a final assembly line
- Also, as noted above, the site has its own battery assembly facility:
    - As a matter of corporate policy, BMW sources the cells from independent suppliers.
    - The suppliers manufacture the cells according to BMW specifications.
    - Chinese cell companies CATL and EVE are building new plants in Debrecen.
- BMW Group plant Debrecen is designed to produce electric-only automobiles. In Debrecen the first model of the Neue Klasse, the iX3, will be produced.
- **Training: co-operation with University of Debrecen and Vocational Training Center**
  The University of Debrecen and the Vocational Training Center have been important partners of the plant.
- ***Hungarian government support***
  A very good infrastructure with appropriate logistical connections and proximity to the established supplier network were important decisive factors in the choice of location. Another decisive advantage is the qualified local labour force.
- ***Alternative locations considered***
  BMW looked at numerous other locations in Eastern Europe more widely, and within Hungary. It is understood that other locations within Hungary were also considered.