

Brexit proofing – Japanese manufacturers in the UK

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Japanese companies in the UK

British and Japanese government representatives usually say there are approximately 1000 Japanese companies in the UK, employing around 140,000 people and that the UK absorbs about 40% of total Japanese investment into the EU.

These round numbers hide a rather more complicated reality when it comes to defining “a Japanese company”. According to the Japanese Ministry of Foreign Affairs’ definition and calculations, there are actually 468 Japan originated companies the UK. Toyo Keizai’s directory records 537 Japan originated companies in the UK – adding the multiple subsidiaries that many of these companies have, brings the total to 930.

Of the 1000 Japan originated organisations (companies, subsidiaries, branches) we have identified in the UK, approximately 20% have production facilities there. We estimate they employ around 63,000 people, generating revenues of £23.8bn. More increased their employee numbers than cut back over the 2016-2017 period, and overall employee numbers rose by around 5% year on year.

The Brexit risks for manufacturers in the UK

Although we have identified 212 Japanese companies with production facilities in the UK, a handful dominate, and their reactions to Brexit will impact other Japanese companies who are suppliers to them. **Nissan, Sony, Honda, Toyota** and **Princes** (a food processor owned by **Mitsubishi Corp**) account for over 50% of the revenues, and over a quarter of the employees of Japanese manufacturers in the UK. Increased recruitment by **Honda, Nissan** and **Hitachi Rail** (the 6th largest Japanese manufacturer in the UK, which has just started production) and various automotive suppliers account for most of the rise in employment over the past couple of years, whereas **Toyota** had the biggest reduction in workforce.

It’s clear from the breakdown in sales by region (where given) that the UK is indeed a gateway to Europe for Japanese manufacturers. More than half of their combined turnover derives from sales to Europe (excluding the UK) and UK sales account for around a third of revenues. Any damage to their ability to export to Europe will therefore impact 50% or more of their revenues.

The automotive sector

A third of the 212 companies are involved in the automotive supply chain and their fortunes are tied up in not only what Japanese car makers are doing but also other car makers such as Jaguar Land Rover and PSA (Peugeot, Citroen, Vauxhall etc). Japanese automotive suppliers have been keen to diversify over the past few years, to avoid over reliance on one customer or supplier or geography.

What the car makers do in response to Brexit in the long run is obviously key for them, but there are a couple of shorter term risks. One which has already had an impact is exchange rate volatility. The cheaper £ can of course be a benefit, if they are exporting, and for most the exchange rate risk is manageable. [As half of the parts in a UK made car are imported, mainly from Europe, and around 80% of cars are exported, again mostly to Europe, there is a natural hedge.](#) Some Japanese UK companies even report in euros, as they are selling and purchasing in euros.

Disruption to the supply chain from Brexit is another risk also mentioned in annual reports. Although they are mostly manufacturing in the UK for UK based car companies, so should be able to maintain just-in-time delivery even if there is a hard Brexit, Japanese automotive suppliers still have to take account of the whole supply chain and likely reaction of the car manufacturers should there be prolonged problems.

Brexit-proofing has started

It's clear some contingency plans are already being enacted. Japanese companies have been warned [since at least 2013](#) that Brexit could happen, so we suspect many of them have made and are now implementing plans with that in mind. These plans might well be something they would have considered doing anyway, but the added risk of Brexit tipped them towards it. For example:

- **G-TEKT**, which designs and manufactures pressed steel bodies and coachwork, primarily for Honda, had no other production in Europe apart from 3 plants in Gloucester, Ebbw Vale and Tredegar employing around 800 people. 90% of its sales are to UK customers. Production will start in Slovakia in 2019 – presumably it's no coincidence that JLR is also building a factory in Slovakia.
- **Tsubakimoto**, manufacturing automotive timing systems in Nottingham with around 100 employees, is transferring some of its existing business to a new plant in the Czech Republic. 72% of its sales are to non-UK European customers, 27% to UK customers.
- **Daido Industrial Bearings**, employing around 180 people in Somerset, is transferring the sales function for its automotive and polymer accounts to Germany. 84% of its sales are currently to non-UK European customers. It also has plants in Montenegro, Czech Republic and Germany.
- **Senju Manufacturing**, who make solder for the automotive and electronics industries, have started manufacturing in the Czech Republic in 2017, as requested by a customer, presumed to be Toyota, who have a joint manufacturing facility with Peugeot and Citroen there.
- **Kasai**, who make interior components for Nissan, Honda and JLR for the UK only, have set up a plant in Slovakia, to add to their existing UK plants in Washington and Merthyr Tydfil, which employ 793 people, down 31 from the previous year.
- **TS Tech** who make car seats for Honda, with 100% of sales to UK customers, started production in Germany in 2016 for VW, in addition to their Swindon UK (where employee totals rose by over 200 from 2015/6 to 2016/7) and Czech Republic plants.
- **Geico Taikisha**, manufacturer of automotive paints, joint venture between Italy's Geico and Japan's Taikisha, turned Geico Taikisha Europe based in Solihull, 11 employees, with branches in France, Hungary and Turkey into a branch of Geico S.P.A. January 2018
- **Advanex Europe**, manufacturer of automotive springs, with two factories in the UK, opened a sales office in Germany in 2016 and will be opening a factory in the Czech Republic in 2018

Some examples in the non-automotive sector include:

- **Sony DADC**, who manufacture DVD and other digital products in Southwater, West Sussex, employing around 300 people. The organisation has been merged with Sony's Austria branch, and will cease manufacturing in the UK and transfer all production to the Austrian plant.

- **Olympus Keymed** have transferred sales to the Middle East and Africa region from the UK to its Germany based regional HQ
- **Sun Chemical** has closed its plant in Orpington in 2017. It has 2 remaining plants in the UK and also plants in Germany, France, Spain, Italy, Denmark, Austria and Poland.
- **Sekisui Alveo** is transferring production of polyolefin foams from its plant in Merthyr to the Netherlands.
- **Krehalon**, manufacturer/processor of food packaging materials, changed from incorporated status to a branch office of the Netherlands subsidiary in 2017

Targets for those looking to attract investment into their countries in Europe

I estimate there are around 76 Japanese companies (around a third of all Japanese manufacturers in the UK) whose only production in Europe is in the UK. Many of these are relatively Brexit-proof – they are highly specialised, or local unique brands (whiskey, fashion etc) and are unlikely to be looking at alternative production locations in Europe.

- The total **turnover** of these 76 companies is around £7bn, ranging from around £2m to £3.5bn (Sony Europe – who manufacture professional use audio and visual equipment in Pencoed – the turnover includes sales of all Sony electronics in Europe however).
- Nearly 60% of turnover goes to Europe excluding UK and around 35% derives from sales in the UK.
- They **employ around 14,000** people in total – over a 1,000 are at Sony Europe.

19 companies with production in the UK only are in the automotive supply chain, reliant on just in time delivery. Although half of their sales go to UK customers - so there will be no problem even if there are issues at the UK/EU borders - a third of their sales go to the EU. Also many of them import components and materials from the EU, as well as Asia and the US. Presumably we can expect to hear announcements in the coming months about contingency plans. One company is already investing in additional warehousing. Ultimately, sales to the EU could be covered by imports from Japan/Asia or the USA, particularly from Japan under the Economic Partnership Agreement.

There are around 150 Japanese manufacturers in the UK (around 2/3 of all Japanese manufacturers in the UK) who have production elsewhere in Europe, so can be considered relatively Brexit-proof already.

New investment into UK from Japan, but no sign of on-shoring in automotive manufacturing

There are also examples of companies who are expanding in the UK – such as **Graphic Controls**, **Hitachi Rail** and various automotive companies, as outlined above. There is little evidence, however, of “onshoring” going on, despite encouragement from the UK government and car manufacturers such as Nissan. I estimate there are around 30 Japanese automotive suppliers who do not have production in the UK, but not one of them has started manufacturing in the UK. There have been no acquisitions or newcomers into the UK in the automotive industry for the past three years. The new Japan-owned companies that have arrived over that period are mostly in the services (financial, recruitment), food distribution, hi tech or pharma/biotech sector.



Databases of the different segments mentioned above, with addresses, websites, ownership/M&A activity, European headquarters location and structure, number of employees in past 2 years, turnover and breakdown of sales by region are available to purchase. Please contact pernille.rudlin@rudlinconsulting.com