Rags-to-riches Skoda mulls post-Brexit sales woes

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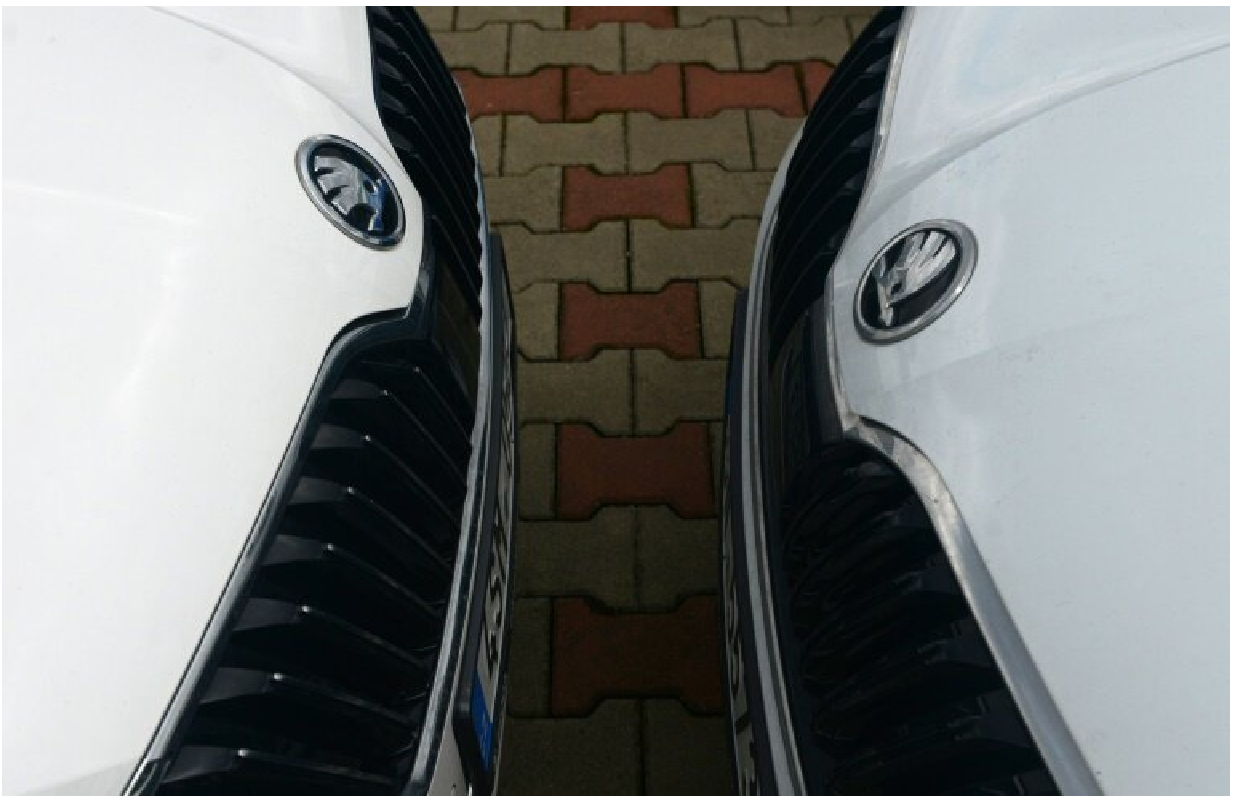


Skoda has left communist-era jokes far behind

Once the butt of jokes, Czech-made Skoda cars have won over Brits, but the UK's exit from the European Union could deal a heavy blow to the brand and the entire Czech economy.

Britain is the fifth largest export market for the Czech Republic, an EU member of 10.6 million people heavily dependent on overseas shipments, especially cars.

The EU has given Britain until October 31 to organise an orderly departure, but a no-deal hard Brexit that would slap high tariffs on imports like cars is still possible.

Controlled by Volkswagen since 1991, Skoda exports some 80,000 cars to Britain a year, almost 10 percent of its annual output.

In an emailed statement, Skoda told AFP it was "worried and getting ready for all scenarios" and called for a "solution acceptable for all parties", but declined to elaborate.

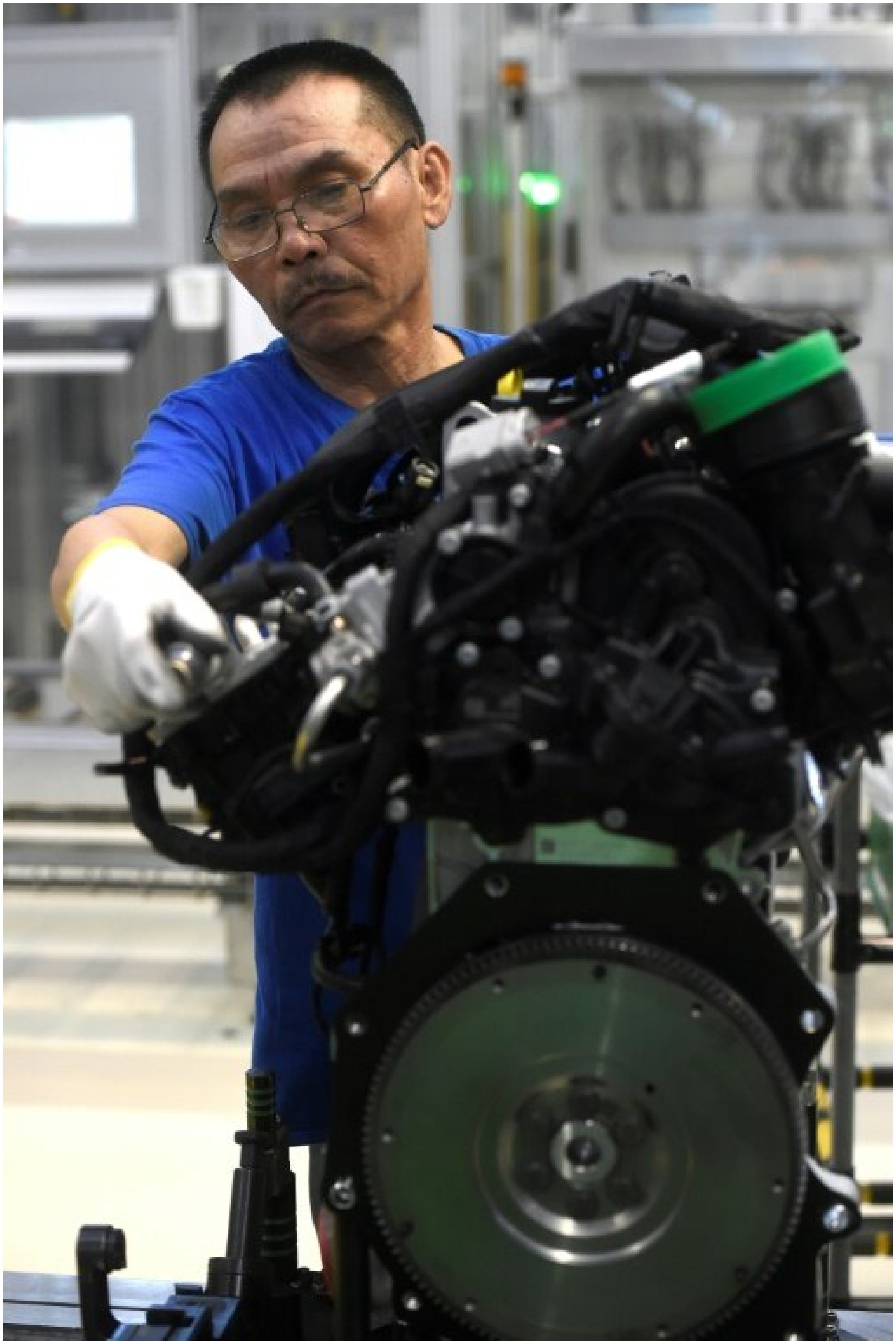
Radek Spicar, vice-president of the Czech Confederation of Industry, went further, warning that the company might suffer a heavy blow.

"A hard Brexit would mean 10 percent import duties slapped on cars, and that would hurt," he told AFP.

"It would stifle demand for cars. Companies like Skoda wouldn't collapse, but they would lose part of an important market," Spicar added.

Despite the grim outlook, Skoda raised its first-quarter sales to Britain by 3.6 percent against a year ago to 22,200 units, company spokesman Zdenek Stepanek told AFP.

Spicar pointed out Britain was also a "symbolic" market for the make, which has come a long way from being the butt of jokes to one of the most respected makes there.



The car industry is key to the Czech economy—and vulnerable to tariffs

No joke anymore

"How do you double the value of a Skoda? Fill the tank with petrol," went a popular joke about Skoda's clunky models produced in the 1980s when Czechoslovakia—the predecessor of the Czech Republic and Slovakia—was still communist.

"Do you know why Skoda has heated rear windows? So when you're pushing it home in the winter, your hands stay warm," said another.

But Britons gradually melted—Skoda's Fabia model was named car of the year by What Car? magazine in 2000, while the Skoda Yeti became the best car to own in a 2013 poll of 46,000 British drivers conducted by the Auto Express magazine.

"Nobody is ashamed of driving a Skoda now, Jeremy Clarkson praised it in Top Gear, it is driven by taxi drivers," said Spicar.

"Britain is simply a symbolic, important market, and Brexit would be terribly unpleasant for the make."

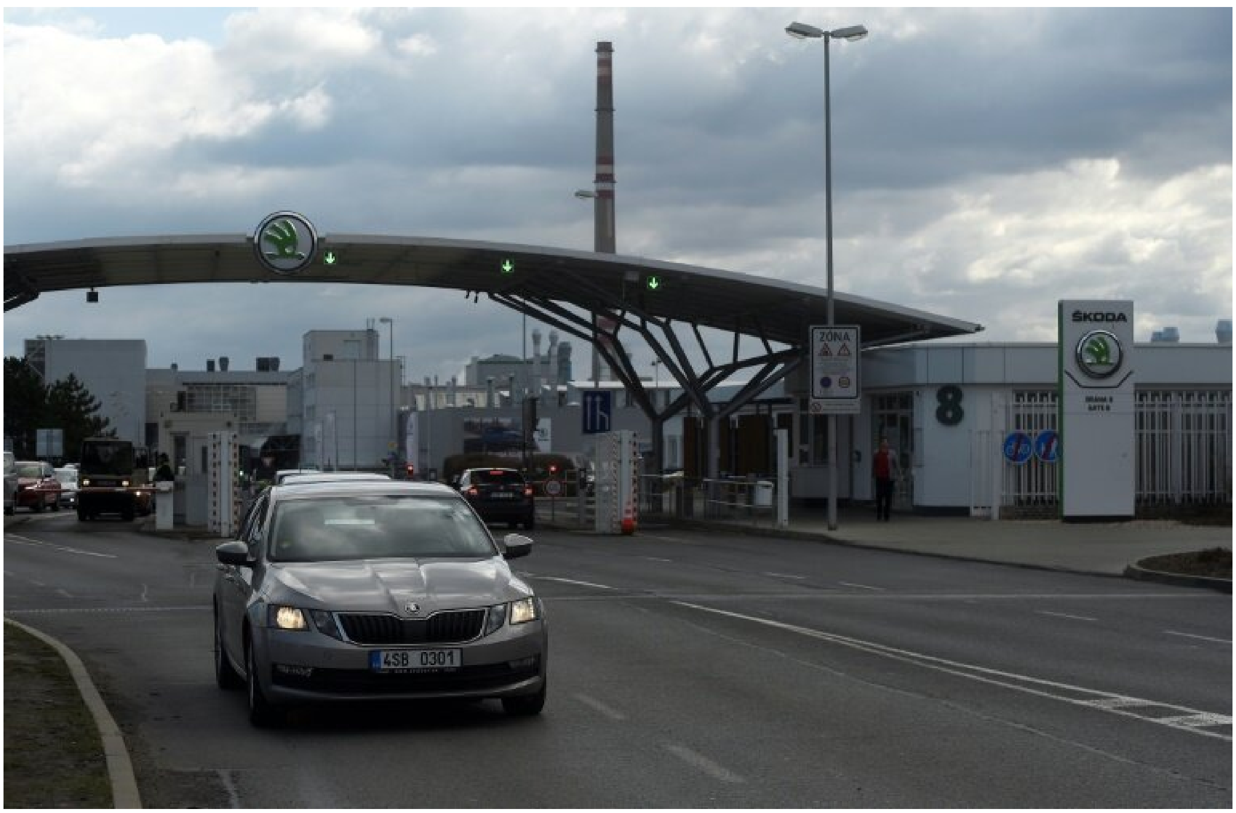
A hard Brexit would "slash Czech exports to the UK by 20 percent, Czech GDP growth by 1.1 points, and employment by 40,000 staff", analysts at the Ceska sporitelna bank, a Czech unit of Austria's Erste Bank, have warned.

Czech companies sell goods worth 210 billion koruna (8.2 billion euros, $9.2 billion) to Britain a year, with auto exports making up more than half of the total, according to Ceska.

Accounting for more than 20 percent of Czech industrial output, the car industry "is the most threatened by Brexit because of its size within the economy", David Marek, chief economist at Deloitte Czech Republic, told AFP.

Three global carmakers with Czech plants turned out more than 1.4 million cars in 2018, a new record, with Skoda making up over 60 percent of that.

South Korea's Hyundai, and TPCA, a joint venture of Japan's Toyota and France's Peugeot-Citroen, also have Czech factories.



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'Hard Brexit would be unpleasant'

A thriving auto sector has been a major contributor to economic growth since 2013, with 2.9 percent expansion last year following 4.5 percent in 2017.

Czech producers of electronics, nuclear plant components, sweets, photo equipment and others are also worried.

"We generate turnover of some 10 million euros in Britain, which is about four percent of our total turnover," says Tomas Kolar, chief executive of Linet, a producer of hospital beds and mattresses.

"A hard Brexit would be unpleasant but not critical," he added.

For Linet, just like for car makers and other companies, Brexit will most probably mean their products will have to get a fresh certificate for sales in the British market.

"This is a non-tariff trade barrier, independent regulation present in all non-EU countries. It may take time before we get the certificates," said Kolar.

Stocking up is a way to avoid problems, but Linet could not do that as its products are tailor-made for each hospital or clinic.

Instead, it has stocked up on welded mattress parts from a British supplier.

"We didn't want to end up empty-handed, it would hit us globally because we sell mattresses worldwide," said Kolar, who expects Britain to impose a 6.5 percent duty on special mattresses made by Linet should a hard Brexit occur.

"It's tough. I still hope they will find some common sense," he said.

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