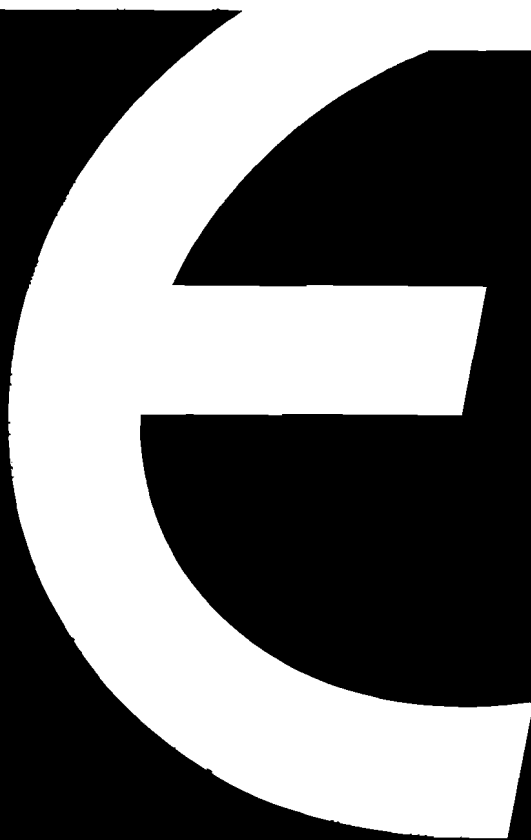


# The Community and the car industry



## European File

**T**hroughout the golden period of economic growth the car industry of the European Community was the world's leading manufacturer and exporter. In the last decade it has been toppled from this pinnacle. It remains the world's largest producer of cars. But since 1970 world production has increased by 30% and Community production has virtually stagnated. Purchases of non-Community cars by Community citizens have increased tenfold. Community car exports to the rest of the world have fallen by 10%, despite a substantial recovery in 1983. The consequences have been inevitable: job losses on a massive scale.<sup>1</sup>

As a counterpoint to this domestic decline, the Japanese car industry has mounted an extraordinary offensive on the European market. Since 1970 it has grown at an unprecedented pace. Its production has more than doubled and its exports have grown fivefold. In 1975 Japan replaced the Community as the world's major car exporter. At the present time, Community plants supply just over two out of every ten cars exported in the world; Japanese plants supply nearly five out of ten.

The commercial challenge from Japan — felt in Europe and the United States alike — shows that the decline of the Community car industry cannot be explained by the recession and successive oil crises alone. The demand for cars in Europe did slow down at the start of the 1980s. But the problems of the European industry flow, to a much larger extent, from the slowness of its reaction to a period of enormous change in motor manufacturing. The car industry has entered a new age, marked by profound changes in vehicle technology, manufacturing methods and market trends.

### **1981: The European Commission statement**

Clearly it is up to the car companies themselves, in the first place, to respond to these new challenges. But the scale of the change in the industry is such that the recovery plans of individual manufacturers and even individual countries cannot measure up to the difficulties. The problem of invigorating the car industry must be faced at European level. It was for this reason that the European Commission, following a major debate in the European Parliament in 1981, published a statement suggesting a Community approach and strategy. The idea was not to supersede action at a company or a national level. Rather, the plan was to formulate, taking account of the economic climate, a common set of guidelines to help the European industry to continue and strengthen its efforts to improve productivity and make the necessary adjustments.

The Commission's diagnosis of the problems facing the car industry was based on two fundamental principles:

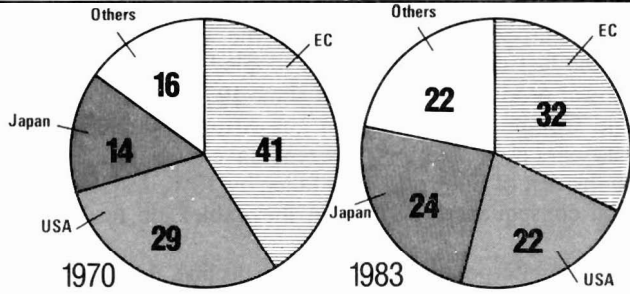
- New technology is going to take a central role in production techniques; it will become an essential precondition for competitiveness and must be permanently

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<sup>1</sup> This file updates and replaces our No 1/82.

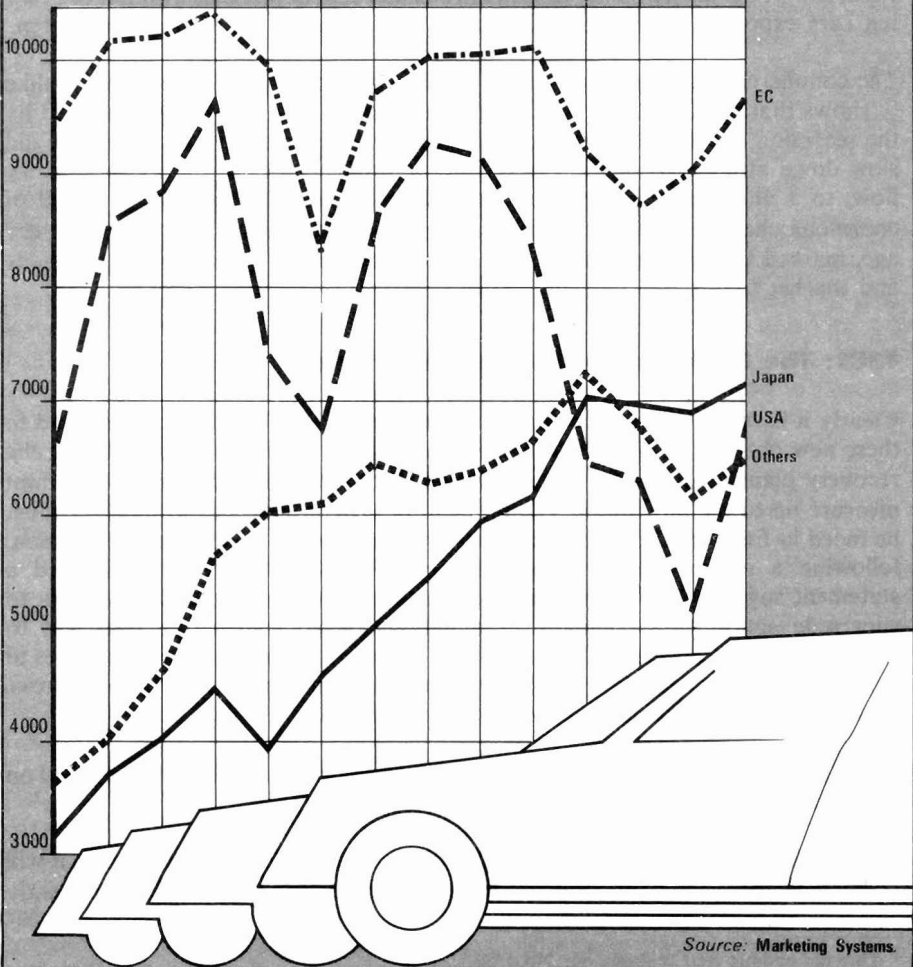
# World car production

in % of world total



in thousands of vehicles

1970 71 72 73 74 75 76 77 78 79 80 81 82 83



Source: Marketing Systems.

and more speedily incorporated in new models and production lines. Robots and computers are already completely overturning traditional manufacturing methods and the economic organization of the entire industry. At the same time, there has been a proliferation of international cooperation agreements which allow companies to assemble cars on various markets from parts mass-produced in factories in the most competitive parts of the world. An increasing part of the added value of motor manufacturing comes from this mass production of components and the building of machine tools such as robots.

- The Community holds a number of trump cards with which to make a success of this technological revolution. Compared to its major competitors, and despite the decline in its trading position, the Community industry has enormous potential for progress. The return on investment in the car industry in Europe is potentially amongst the greatest in the world. Investment efforts should be directed not only towards the modernization of equipment but also towards the exploitation of technological achievements and the improvement of distribution methods. To achieve these three key objectives, the Community industry must, first of all, correct its structural weaknesses. Despite the massive size of its manufacturing base, the Community industry suffers from a handicap in comparison with world competition: it is still, for the most part, the sum of over-fragmented and heterogeneous national industries. Put another way, the firms have not yet been able to take full advantage of the opportunities created by the unification of the Community market. Here, then, is further proof of the need for a Community approach to the problems of the car industry.

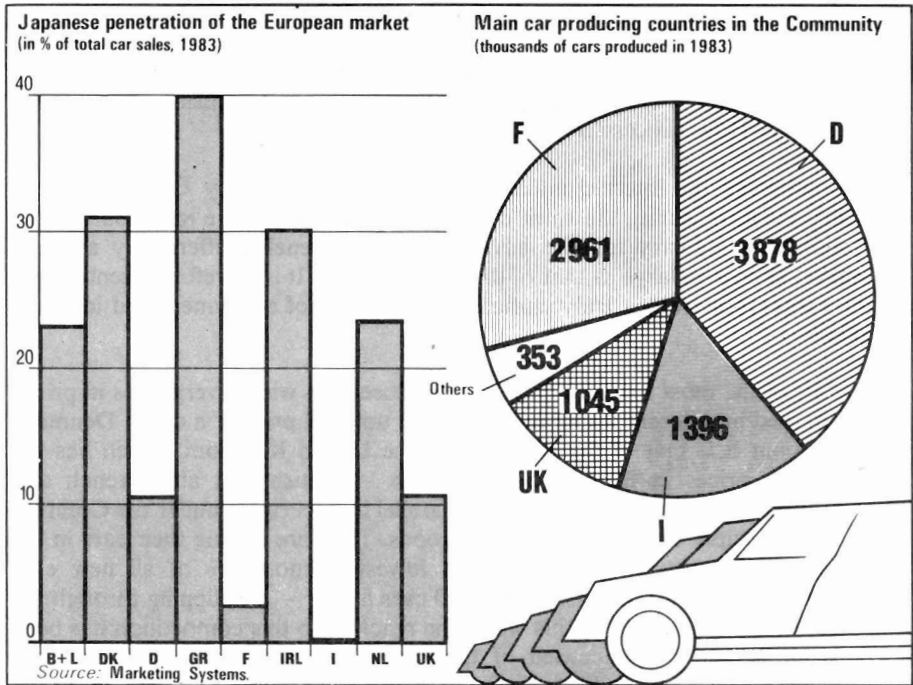
### **The state of the car industry**

Three years have passed since the Commission produced this analysis. What is the present state of affairs in the Community industry? In December 1983, the Commission sent to the European Parliament and the Council of Ministers a report on economic conditions in the Community industry and its position on the world market, as they appear in the medium-term:

- The years 1978-79 broke all records for the car industry, in Europe and the world as a whole. In 1979 the Community produced more than 10 million cars. Internal demand absorbed 9 million. In 1980, following the second oil shock, demand fell by 5%, following a decade of average annual growth of around 2%. Production fell by 10%, or about one million vehicles. The situation grew even worse in 1981 but this proved, as predicted by experts, to be the 'trough' for the Community industry. Demand fell, by 2.3% in the Community and by 3.3% in the world as a whole. All manufacturers felt the chill: production in the Community fell by 5% and in the world as a whole by 4%. European firms went through a difficult patch, largely because of these extremely unfavourable economic conditions. They began a huge modernization programme which demanded high levels of investment. The marketing of a large range of new

models, responding, as far as possible, to rapid changes in demand, requires new production and management techniques and the availability of new components. The cost of launching a new model is estimated at about 500 million dollars. In these circumstances, the profitability of many companies suffered and about half incurred heavy losses.

- The recovery in demand for cars began in the Community in 1982 (1% up) and took off in 1983 (5% up). Although still falling in 1982, world demand also recovered strongly in 1983. In these changed conditions, the massive efforts of Community firms appear to have reaped their first rewards. During these two years Community production increased by 11%. Exports, stable in 1982, jumped by 12% in 1983, largely due to the success of German car sales and the expansion of French sales on the United States market. Available figures for the first months of 1984 are, however, less favourable.
- As far as the Community's competitors are concerned, the 'trough' of the early 1980s gave way to a period of real recovery:
  - Following their spectacular achievements in the 1970s, the Japanese had their first fall in production (nearly 1%) in 1981. In 1982 their output again fell by 1%, mainly because of a drop in exports (4.5% down) and especially exports to the Community (9% down). This decline was, however, arrested in 1983. The expansion of the Japanese domestic market and the strong recovery of sales to the Community (up 19%) helped Japanese firms to achieve a new record production total of 7.15 million vehicles.
  - In the United States car firms experienced an even more savage recession, followed by a stronger recovery than in other parts of the world. After producing an average of 8.3 million cars a year during the 1970s, US firms lost 40% of their production – more than three million vehicles – between 1979 and 1982. On the US domestic market, more than one in five cars sold was Japanese and total sales fell by 3.5% in 1981 and 8.2% in 1982. US car exports, which accounted for just over 6.5% of the world market in 1981, fell by almost a third in 1982. But, thanks to a gigantic investment programme, launched more than three years ago and surpassing that of the Apollo space programme, and to a massive reduction in the workforce and an agreement limiting Japanese imports, and thanks to a recovery in demand for large cars, 1983 was a turning point. With their competitiveness partially restored, US manufacturers took full advantage of the economic upturn and their output jumped by one-third over the low 1982 level.
- Up to now, we have discussed only the private car sector. Mention should also be made of the two other large sectors which make up the motor industry:
  - Like private cars, the demand for commercial vehicles, ranging from the two tonne truck to heavy goods vehicles proper – fell (by 6%) in 1981 and Community output tailed off (16% down). Despite a slight increase in



demand, European output fell further in 1982 (by 3%) and 1983 (by 1%). The Community is a major exporter of commercial vehicles, especially heavy trucks. Unfortunately this is one of the markets worst hit by the recession, especially in the oil-producing states and developing countries, which constitute the biggest customers. Community exports dropped by 28% in 1983. The value of the remaining exports was nevertheless large enough to retain second place for the Community in the world commercial vehicle market. First place went to Japan which concentrates on a range of mass-produced light vehicles (4 million in 1983). The Japanese domestic market takes about half of these trucks and the rest are exported.

- As a result of the establishment of assembly plants outside the Community, the share of components in the total value of Community car exports rose from 23% to more than 35% between 1970 and 1980. In the trade balance sheet of the Community, exports of components now occupy a larger place than exports of either private cars or commercial vehicles, taken alone. These sales have also been deeply damaged by the recession which shook the entire Community industry but they have retained their relative position in the Community's car export market.

## **The Community – a partner in modernization**

In its 1981 statement, the European Commission set out the main guidelines for a Community policy of effective support for the massive restructuring efforts of the car industry. How successful has this strategy been?

- Strengthening the internal market: the first priority of any Community car policy must, reflecting the spirit of the European treaties, be to encourage the Community industry to take advantage of the benefits offered by a single market almost as large as that of the United States. It is therefore essential that the common market is truly unified, to the benefit of consumers and industry alike:
  - One of the most irritating problems has been the wide divergences in prices charged in different Member States. The untaxed price of a car in Denmark is about half that of the same car in the United Kingdom, which has the highest prices in Europe. Many people – British, but also French and German – are making use of their parallel import rights under the Community principle of free movement of goods. They are buying their cars in the Member States where the price is lowest. Almost 3% of all new cars registered in the UK – about 50 000 cars a year – are slipping through the net of official dealers in this way. The reaction to this competition has been swift. It has been accused of threatening the profitability of approved dealers. One German firm refused to deliver right-hand drive vehicles for the British market. In other cases, difficulties were placed in the way of issuing the ‘certificates of conformity’ needed to register imported cars. The European Commission has intervened to stamp out these practices when they infringe Community principles. In addition, the Commission is preparing a regulation setting out conditions which selective distribution systems for cars must fulfil to remain within Community competition law. The aim is to protect the rights of producers and official dealers, while setting certain limits which will allow European consumers to buy cars in the country of their choice.
  - The complete harmonization of technical and safety standards for cars is the cornerstone of the Commission strategy for strengthening the internal market. Its ultimate aim is the creation of a system of Community type-approval which would allow the conformity of individual vehicles to be checked once and for all in a single operation valid throughout the Community. Enormous progress has been made along this road since 1970. About 60 Community decisions have laid down standards for most car parts. Three directives remain blocked. They have been trapped on the Council of Ministers’ negotiating table for many years because of the divergent views of Member States on ways of dealing with cars from non-Community countries. Community regulations which have been agreed are constantly being revised and are optional. A Member State can, if it wishes, allow its manufacturer to stick by its own standards and receive conformity clear-

ance for its own territory only. In addition, governments have just approved a Commission proposal, drawn up after consultation with industry experts, consumers and national authorities, which aims to further reduce the level of car noise. Another proposal recently tabled aims to reduce gaseous exhaust emissions and scale down and eventually abolish the level of lead in petrol. In these areas, the Community's intention is to shape a coherent medium and long-term strategy. The lead time from the design to the production of a new model is three to five years and requires massive investment. What is required is a framework of regulations which is both stable and coherent and takes due account of the inter-related needs of the environment, safety, energy saving and return on investment.

- In a series of related areas, Community measures are being introduced or considered in order to abolish trade barriers and restrictions on the free movement of vehicles. These include the forthcoming introduction of a European driving licence (1986), various regulations on compulsory insurance and tests of roadworthiness for older vehicles. The taxation of new cars has also been studied. This is the chief reason for many of the price problems mentioned above. But the European treaties have left Member States complete sovereignty in tax matters and the powers of the Community in this area remain very limited.
- Research and development: clearly, it is not the task of the Community to take a direct role in the development of new products and manufacturing techniques. But in a number of specific ways, the Community can play a useful role in strengthening research efforts and breaking down barriers between research teams, especially in the multisectoral and precompetitive areas which shape the future of the whole car industry. One key area is energy saving. Motor vehicles accounted for one-fifth of all energy used in the Community in 1981. Reducing petrol consumption has also become a major selling point on the world market. European manufacturers have achieved results in this area which surpassed all expectations. Since 1978 the average petrol consumption of their vehicles has been reduced by about 10%. Community programmes are directed towards alternative and long-term solutions. A directive is being prepared on substitutes for petrol, mainly vegetable in origin. The Community is co-financing research on new forms of internal combustion engines (linear motors with electromagnetic transmissions or electric traction motors for city transport) and the creation of composite materials which will reduce car weights. The new Community framework programme for research (1984-87) also includes projects with potentially important implications for the car industry: the use of technical ceramics in the development of high-performance, thermo-dynamic motors, the technology of surfaces, assembly techniques, the use of lasers, the development of computerized testing methods, etc. Car firms are also showing great interest in an area of the Community research programme for information technologies, ESPRIT, which deals with integrated, computerized production methods. This approach could revolutionize production lines and play a decisive role in restoring the competitive edge of the European industry. Safety



has not been ignored. The conclusions of a recent research programme on the bio-mechanical effects of frontal and lateral shocks are currently being studied.

- Structural changes in the industry: despite the widespread restructuring of the last two decades, the world market situation is encouraging firms to continue the process of merger and cooperation, not only in research but also in areas such as the manufacture of components. The Community favours such developments but will ensure, as the European treaties direct, that common competition rules are respected. The Commission has an important role to play here as the arbiter of agreements signed by car manufacturers. It also has a duty to monitor the legality of national subsidies given to car-makers, whether specific aids to the industry or more general aids from which it benefits. Community policy aims to ensure the necessary transparency of aids in order to avoid distortions of competition and prevent aid 'auctions' and retaliatory measures. It is also important to ensure that national subsidies do not create excess capacities which will further aggravate the structural problems of the industry.
- Community aid to the car industry: the relatively limited resources of the regional, social and coal and steel funds of the Community have helped to solve pressing regional and social problems. For a number of years, the European Investment Bank has given considerable assistance to the modernization of manufacturing capacity in the industry, the improvement of productivity and energy savings.
- Employment and working conditions: at the beginning of the 1980s the European car industry experienced large-scale and widespread job losses for the first time in many years. Between 1980 and 1982, 220 000 jobs were lost (11% of the total), half of them in the United Kingdom. Further waves of redundancies followed. Even the economic upturn has not cured these serious employment problems. Unavoidable technological and structural changes have forced a radical transformation of the industry, influencing not only the volume of production but the nature of the work itself. Before it is possible to find remedies for these upheavals, it is essential to study their nature and scope. The European Social Fund has given cash for the training and retraining of workers. But the Community has also launched studies on changing working conditions, the concrete results of the introduction of robotics, the training and qualifications of workers and the regional consequences of changes in the industry.
- International trading relations: the Community has begun a wide-ranging dialogue with its trading partners in order to eliminate tensions and imbalances and preserve an open but stable international market. The problem of Japan is central. Although the Japanese market was, until recently, closed to European cars, Japanese exports – virtually non-existent in 1970 – rose to 70% of all cars imported into the Community by 1982. One car in 12 in the Community and one light truck in 10 is now made in Japan. One of the major themes of the frequent contacts between Japan and the Community has therefore been the

trade in cars. These contacts resulted in the 1981 agreement by the Japanese to moderate their car exports to Europe. As a result, the pace of Japanese exports slowed down in 1981 and 1982. At the same time, the Japanese authorities abolished a number of customs and administrative barriers which previously shielded their own market. Alongside this policy of removing imbalances and tensions, the Community is encouraging economic interdevelopment of major world car firms through industrial cooperation agreements and reciprocal investment. A number of joint development projects for new models have already been worked out by Japanese and Community car manufacturers. In this way, competition need no longer be a one-way street, affecting only finished products. It can find a new equilibrium through increased and more varied exchanges of components, machine-tools and technological know-how. This is, without a doubt, the way forward for the European and world car industry and the Community will continue to lend its support to this process ■

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