

The future of the car industry

European File

The car industry, which serves as both the symbol and the spearhead of economic growth in the industrialized countries, is currently undergoing a major transformation. This change is a particularly sensitive one for Europe where manufacturers have to face competition from Japan, the U.S. and newly industrialized nations. The European industry has also to adapt to a slowdown in the rate of increase of demand, to the increased pace of technological progress and to the shifts in the pattern of trade. The manufacturers themselves are, of course, the most directly concerned and it is on them that the European response primarily depends. The problems are, however, of such size that the public authorities must be involved, particularly at national and Community level.

A new stage in the development of the car

The car industry has entered a new phase in its development, marked by:

- a temporary fall off in demand. In the long term there is no reason to foresee a stagnation or reduction in world demand for cars. For every 1,000 inhabitants there are 540 cars in the U.S., 322 in the European Community but only 79 in the rest of the world. The development of the Third World will automatically bring with it an increase in demand for motor vehicles. However, in the short term, there has been a certain slowdown in demand following the new oil price increases. Although the number of cars sold in the world between 1975 and 1980 increased by 5.6% per year, the average rate of increase forecast for the next five years is only 3% per year.

- an acceleration of technological development following a lengthy period of inertia (most of the principles of car building date back to the period between 1910 and 1935). The future competitiveness and therefore survival of manufacturers will depend on their ability to master technological advances and particularly to produce increasingly energy-efficient vehicles at a reasonable price.
- a change in the conditions of production. There are three major factors here. Firstly, automation is on the increase: half the industrial robots manufactured in Japan are destined for the car industry. Secondly, production is being rationalized: vehicles are increasingly being assembled on different markets from parts mass-produced in a few factories. Finally, a shift in the economic balance is taking place: rather than in car building itself, an important part of the value-added in the automobile industry now lies in the manufacture of components, machine tools and maintenance.
- a change in the pattern of trade. Motor industry exports consisting less and less of finished products and more and more of component parts, tend to come from the most efficient producer countries.

The situation on the world market

Faced with the situation described above, where do Europe's main competitors stand? Three major points must be borne in mind.

- The competitiveness of the Japanese. A few figures serve to illustrate the scale of the expansion of the Japanese motor industry: in 1952, there were 130,000 cars in Japan, of which 100,000 were imported; in 1980, the Japanese produced 7 million private cars, of which over 3.8 million were exported. Between 1970 and 1980, Japanese output increased by 122% and its exports by 426% while, with production more or less stable, Community exports dropped by 23%. Japan's remarkable advances can be explained by the existence of:
 - a long-term development strategy. Japanese producers have invested twice as much as their European and American counterparts. By the expansion of automation in factories, the component sector and training of workers, the Japanese have over the past 20 years increased productivity twice as fast as the Europeans and four times as fast as the Americans.
 - a perfectly integrated industrial and commercial system. Automation and the high rate of use of machinery together with the development of subcontracting and links with suppliers, give the Japanese production costs between 20% and 30% lower than their European counterparts. The models offered are based on the needs of users in different markets. Finally, distributors assisted by impressive computer back-up, have a cheap fleet of transport upon which to call.
- American ambitions. The American motor industry is in the middle of major redeployment:

- over the past few years it has experienced one of the worst crises in its history: in 1980, the three biggest American car firms lost over 4.5 billion dollars, total output fell by 30% compared with 1979, the industry's trade deficit was more than 13 billion dollars and almost 300,000 people were made redundant. American producers had not foreseen the qualitative evolution of demand; they were unable to respond to the call for small cars triggered by the second oil crisis. Moreover, their net price would be 1,000 to 1,500 dollars higher than those of Japanese imports.
 - however, plans are in hand. The U.S. aims to re-establish its supremacy. It plans to produce in 1985 a number of competitive vehicles to meet demand on its internal market. Massive investments have been set aside to achieve this: 70 to 80 billion dollars (that's a good deal more than the entire Apollo programme). American consortia are also keen to cultivate financial and technological agreements with Japanese and European firms over the next five years. The authorities — management, trade unions, government — appear ready to do everything to ensure the success of this counter-offensive. There is, however, one major problem: if the U.S., which currently imports 2.8 million cars per year (80% of them Japanese), manages to satisfy domestic demand or to offset imports by increased exports, there could well be over-capacity in world production by 1983-1985.
- The emergence of new competitors. Between 1970 and 1980, the share of world automobile production taken by new producer countries rose from 10.3% to 19.8%. These countries can be divided into three groups;
- the State-trading countries took 6.5% of world production in 1980. Based on transfers of technology, largely from the European Community, the motor industry in these countries is currently concentrated on the manufacture of very modern, even original, vehicles, which should allow them to increase their share of the world market. Car exports to the Community from the Eastern Bloc countries in particular are forecast to increase from 161,000 in 1980 to 500,000 in 1985.
 - the 'newly industrialized' countries (Latin America, South Korea, India, etc.) currently account for less than 7% of world production. Some of these countries represent an increasing threat to the European industry as they are beginning like South Korea, to sell very competitive cars on Western markets (thanks largely to their very low wage costs).
 - on the other hand, the countries which have applied to join the European Community (Spain and Portugal) should eventually give to European industry an extra competitive element.

Strengths and weaknesses of the Community industry

What is the current position of the European car industry?

- It is still a key factor in industrial development:

- it has a stimulating effect on the raw materials sector. 20% of steel production and machine tools, more than 5% of glass production and around 15% of rubber production go to the car industry. For every job directly created by the European car industry (which employed nearly 2 million people or 5.4% of the industrial workforce in 1980), approximately two more jobs are created earlier in the chain.
 - more than at present it could be the driving force behind the high-technology industries. Although European cars, particularly compared with their American competitors, already possess technical characteristics closely tailored to the market, they must still be modernized by making wider use of new materials and sophisticated electronic equipment. The automation of production must also be expanded. By opening new markets to high-technology industries, the automobile sector can stimulate their development and therefore the creation of new jobs.
- But the commercial power of the Community motor industry is under threat. Even though the Community is still one of the world's main car exporters and even though these exports finance 20% of its oil imports, its position has weakened on the various markets:
- the deterioration of the domestic market is shown by the extent of Japanese penetration. In 1970, the Japanese accounted for 0.6% of sales in the Community with 48,000 cars. In 1980, they took 8.9% of the Community market with 754,000 cars.
 - Community sales on overseas markets fell by 23% between 1970 and 1980, dropping from 2.5 million to 1.9 million cars. During the same period, world car exports rose by nearly 77%, and those of Japan by 426%. If the Community had held its share of world trade (more than 51% of exports in 1970), it would have sold some 4.3 million cars in 1980, 2.4 million more than in reality.

This deterioration of Community trade looks like continuing in the years to come. According to particularly pessimistic forecasts, the Community could even become a net importer of cars by 1983. Nevertheless, significant new export possibilities will appear progressively for spare parts, industrial goods and equipment (robots) and technological and industrial know-how. This development presents numerous positive advantages because it is in these sectors that an increasingly important part of the value-added resides.

- European car-makers have a wide industrial base at their disposal, but one whose fragmentation calls for reorganization. Compared with its major competitors, the European car industry is a lot less homogeneous:
- the situation of the different European motor industries is very varied, whether in size, financial situation or status (some are public companies). In addition, their ability to face competition differs: Americans and Japanese car firms are in direct competition with other car-makers at national level, while several European producers specialize in particular types of car; almost a quarter of European

production is accounted for by subsidiaries of Ford and General Motors, while VW is the only European company to produce cars in the U.S. and no foreign company has yet set up in Japan.

- there is lesser degree of concentration in Europe. In the U.S. and Japan, the two biggest manufacturers control about 75% of their respective markets. Only the top five Community producers together could achieve the same result in Europe. Thanks to mergers, several European companies have reached a size which now puts them among the top world producers. But the resulting infrastructures are understandably very cumbersome and require a substantial effort of harmonization before they can be used to the optimum effect.
 - the manufacture of component parts is even less concentrated. While in Japan, 350 suppliers service all car manufacturers, the corresponding Community figure is 1,750 and this limits economies of scale linked with mass production.
- There is, however, room for improvement. The Community is in a unique situation compared with its major competitors: despite its structural weakness, its car industry has a more significant potential for progress. In Europe, the cost/benefit ratio for the measures to be taken is probably the highest. The measures should have three aims:
- rationalization of plant: while in Japan in 1979, it took 696,000 workers to manufacture 9.6 million cars, in Europe, 1.95 million workers were required to build 11.4 million vehicles. The best European car firms were three times less productive in assembling cars than their Japanese rivals. There is also a wide gap as regards production of components, with Toyota producing nine engines per person per day as against only two in a comparable production in the United Kingdom.
 - development of technical know-how: the Community's automobile technology is unparalleled in the world, both as regards the products and the production methods employed. Even the Japanese based their development on this technology. But Europe is losing some of its lead: the research effort is too weak; it is uncoordinated and the results are too slowly put into practice.
 - making the best use of distribution networks: car distribution and service networks are particularly dense in the Community, where they employ nearly 3 million people. But closer liaison with the manufacturers would allow them to keep pace with consumer demand and improve the inspection and control of motor vehicles.

A strategy for the future

The European car industry has a tough task ahead, but it has the means to win through. It is primarily up to the car-makers themselves to define and implement structural changes. But the Community can ease their task, as the European Parliament stressed following a major debate early in 1981. The European Commission has drawn up several priority guidelines:

- At the industrial level, greater cooperation must be encouraged between European companies in the face of world-wide competition. Competition between European firms is supervised by the European Commission in accordance with the Treaty of Rome. Community surveillance of national aids would ensure the necessary transparency, help avoid overpricing and waste, encourage contacts between Member States and ease the required industrial changes by preventing non-competitive companies from being responsible for overproduction.
- At the financial level, substantial investment programmes will require borrowing. Plans envisaged by European car-makers for the next 3 to 5 years are worth some 35 billion dollars. Community loans and aids, granted by the European Investment Bank and the Regional, Social and Steel Funds – nearly 1.5 billion ECU between 1975 and 1980,¹ or more than 5% of total investment – can play an even more important role if the criteria for granting aid are better clarified. Special attention should be paid to improving overall productivity and the components sector.
- At the technological level, innovation must be encouraged in order to produce competitive vehicles which respond to increasing energy constraints and which ensure safety of the passengers and the quality of the environment. Technological know-how must be better exploited and research should be developed with a view to a longer-term picture of the car. Increased cooperation between the companies, public authorities and all the other interested parties is crucial. The European Commission is already supporting car-makers' research efforts, particularly in the field of energy savings. For its part, the European Investment Bank grants capital in the form of long-term loans for investment in energy saving, both in the production of cars themselves and in fuel consumption. The Community should seek to step up its contribution by supporting the gathering, speeding and exploitation of know-how. Thus, by backing permanent market observation, technical centres, in-depth research programmes and pilot projects, the Community can help the industry both to define the available choices and to implement them, for example, in the field of micro-electronics.
- On the regional and social fronts, broad agreement between economic and social decision-makers should guarantee the necessary dynamism and flexibility to agree on improved working conditions and more efficient exploitation of plant. The current developments will result in a distribution of labour between the different sectors connected with the car industry and a greater demand for qualified workers; it should also benefit the poorer regions, where certain production centres could be based. But there is still a good deal of uncertainty. In a first stage, the European Commission will examine the available data and forecasts on the labor market situation, workers' qualifications and working conditions, with the aim of helping decision-makers to forecast more accurately the future of companies, regions and professional training, etc.

The Community can also help the automobile sector to adapt by:

¹ 1 ECU (European currency unit) = about £ 0.56 or Ir.£ 0.69 (at exchange rates current on 8 December 1981).

- A better exploitation of the European internal market, which is the second largest in the world after the U.S. The Community market must be freed from all barriers to trade, not only in the field of technical specifications, for which the degree of unification in Europe is already greater than in the U.S., but also in transport, insurance and tax legislation. In addition, regulations must adapt better to economic, technological and energy developments. It takes five years to build a car, from the initial conception to mass production. A global medium to long-term approach, coordinated at European level and taking account of energy saving, safety and environment, can help car manufacturers to safeguard their competitiveness and better organize their future.

- A better balance on the world market. As a net car exporter (approximately 1 million in 1980), the Community has also an interest in maintaining an open international market. This free market is threatened by the attitude of the Japanese, who exported more than half of their production in 1980 while remaining virtually closed to imports. Over and above temporary measures aimed at regulating the flow of Japanese cars, a long-term solution needs to be found, on the basis of an organized dialogue between the major producer countries. And in this it is clear that European producers can make their voices heard all the better if they present a united front. Rather than searching for national solutions, the Member States must equip the Community with the means to operate a coherent external trade strategy. Main lines of this policy: trade should no longer be one way nor be confined to finished products; new commercial structures based on increased trade in components, equipment and technology and on the improved efficiency of factory siting should be encouraged. This new stability, by economic and technological developments, is impossible without agreement between the three major producer zones. It would help their economic interpenetration and thus defuse trade tension while at the same time boosting the economic efficiency of the automobile sector ■



The contents of this publication do not necessarily reflect the official views of the institutions of the Community.

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Office for Official Publications
of the European Communities
L-2985 Luxembourg

ISSN 0379-3133

Catalogue number: CC-AD-82-001-EN-C