



EUROPEAN PARLIAMENT

Secretariat

Directorate General for
Research and Documentation

THE AUTOMOBILE INDUSTRY IN THE COMMUNITY

**Evidence given on the European Automobile
Industry for the hearing organized by the
Committee on Economic and Monetary Affairs
and Industrial Policy**

28-29 October 1985

European Parliament
97-113, rue Belliard
BRUSSELS

Economic Series no.

7

12 - 1985

Foreword

The European automobile industry faces a number of problems which were discussed at the hearing on the European automobile industry organized by the Committee on Economic and Monetary Affairs and Industrial Policy, 28-29 October 1985, in Brussels. The main objective of this hearing was to collect evidence for the Committee's own-initiative report by Mr P. Beazley, MEP.

The Directorate General for Research & Documentation has been asked to summarize the results of this hearing, which are included in this document. There are three chapters, dealing with :

- I Economic and industrial implications of the clean car;
- II Remaining barriers to a common market in cars;
- III Implications for the structure of the Community automobile industry due to the increased internationalization of the sector.

Each chapter contains a synopsis of

- the answers given to a questionnaire
- introductions, questions and answers at the hearing
- a reading list.

The summary was prepared by Mr Paul Ames, a Robert Schuman Scholarship holder, and Mr Anton Lensen of the Economic Affairs Division of my Directorate General.

Michael PALMER

TABLE OF CONTENTS

	<u>Page</u>
Fact Sheet on the Automobile Industry	i
Questionnaire on the Automobile Industry	iv
List of Responses Received to the Questionnaire	vi
List of Invited Speakers at the Hearing	viii
<u>PART I</u> <u>ECONOMIC AND INDUSTRIAL IMPLICATIONS</u>	
<u>OF THE CLEAN CAR</u>	
- Summary of the Answers given to the questionnaire (questions 1-9)	1
- Synopsis of the hearing, Monday 28.10.85, 3:00-5:00 p.m.	28
- Documentation	
. Press release, Council of the European Communities	37
1019th Council Meeting - Environment -	
Luxembourg, 27-28 June 1985	
. Comparative Test Cycles	39
. Bibliography	41
<u>PART II</u> <u>REMAINING BARRIERS TO A COMMON MARKET</u>	
- Summary of the answers given to the questionnaire (questions 10-14)	42
- Synopsis of the hearing, Monday 28.10.85, 5:00-7:00 p.m.	52
- Bibliography	64
<u>PART III</u> <u>IMPLICATIONS FOR THE STRUCTURE OF THE</u>	
<u>COMMUNITY AUTOMOBILE INDUSTRY OF THE</u>	
<u>INCREASED INTERNATIONALIZATION OF THE SECTOR</u>	
- Summary of the answers given to the questionnaire (questions 15-24)	65
- Synopsis of the hearing, Tuesday 29.10.85, 9:00 a.m. - 1:00 p.m.	89
- Bibliography	104
<u>Appendix</u> : Summary of replies from the Japanese	
Automobile Manufacturers Association	106

DIRECTORATE GENERAL FOR
RESEARCH & DOCUMENTATION

THE COMMUNITY AND THE AUTOMOBILE INDUSTRY

LEGAL BASIS

The Treaty of Rome contains no specific provisions on a common policy for the automobile industry, though its powers in the sphere of competition, state aids policy (Articles 85-94) and the internal market entitle the Commission to intervene in the automobile market. The Commission is to table proposals, within the framework of the mandate which it received on 30 May 1980 from the Council for the formulation of an industrial policy. The Commission may be authorised to negotiate with third countries (external policy.)

OBJECTIVES

- the creation of a common automobile market by the elimination of barriers to intra-Community trade;
- the maintenance and expansion of a competitive automobile industry in the European Community, having regard to developments in this sector and in production techniques at international level.

SITUATION

The automobile industry is of great importance to the Community countries, employing some 1.8 million people (EC-10, about 5% of the work force; in Spain the car industry employs 250,000 people) and indirectly providing employment for 6 million people; in 1984, 9.2 million cars were produced in the EC-10; Spain produced 1.2 million cars, and its producers are most dependent on exports to the other EC countries (production in the USA was 7.7 million and in Japan 7.1 million units). Expenditures on cars are the most important household item after the purchase of a house, since consumers in developed countries spend between 10% and 11% of income on passenger cars.

PROBLEMS

The problems facing the European automobile industry can be summarised as follows:

- **Overcapacity** of currently 2.5 million cars in the West European car industry. This situation is aggravated by
 - (1) the loss of market shares in traditional export markets as a result of Japanese export strategy;
 - (2) pressure to invest in new products (e.g. clean car), production technology (robotics), marketing and distribution in a time that own financing capacity is low. The Big Six car producers in Western Europe suffered an aggregate loss in 1984 of 1.5 billion ECUs.
- elements of an **uncommon** market in the Community for cars (e.g. different national type approval and registration systems instead of a European one, distortions because of national price controls, taxation, state aids, exchange rate fluctuations, introduction dates of environmental standards, anti-competitive obstacles).
- **Japanese** penetration of the European car market, which market share is over 10%. Japan exported in 1984 1 million cars to Europe and imported only 41,000 from the Europe. The deficit in cars alone represents 20% of the total EC trade

deficit of over 9 billion ECUs with Japan. There is not a Community commercial policy with Japan; only some national bilateral agreements, limiting Japanese imports, exist. No Community rules about European content (assembly) exist.

- **Competitiveness:** The European car industry is restructuring; it has shed substantial numbers of employees; it invested in new flexible production and automation technologies, such as Computer Integrated Manufacturing (CIM), new materials, fuel efficiency of cars, the 'clean' car (existing three-way catalytic cars or development of lean-burn engine), new management techniques, joint ventures. However, the European car industry has some way to go in order to match Japanese productivity and cost levels.

COMMUNITY ACTION

- In the framework Directive 70/156/EEC, 48 Directives exist. Three Directives remain to be approved by the Council or approximation of laws concerning tyres, window glasses and weights.
- The White Paper from the Commission 'Completing the internal Market' (COM(85)310 final) announced a timetable concerning approximation of laws in the motor vehicle sector, to be completed before 1992.
- The Community will try to implement also a common commercial policy in cars vis-à-vis third countries.
- The Community has reached agreement in March and June 1985, on solutions to the problem of air pollution due to exhaust gases from motor vehicles (Bulletin EC 6-1985, point 2.1.97).
- The block exemption regulation relative to motor vehicle distribution and servicing agreements came into force on 1 July 1985, (OJ L 15, 18.1.1985). This is part of the Community's competition policy.
- The Commission monitors also state aids for the car industry; the Commission is notified a priori and may authorise such state aids.

ROLE OF THE EUROPEAN PARLIAMENT (EP)

The EP has always taken a very close interest in the Community's automobile industry. It has supported and encouraged the Commission to establish a common market for cars, promote its general competitiveness, and guarantee a better balance of trade with third countries.

GENERAL

- Bonaccini reports on the European automobile industry, Doc 1-637/80, Resolution of 13.1.1980, OJ C 28, 14.2.1983.
Doc. 1-1505/83, Resolution of 29.3.1984, OJ 117, 30.4.1984.
- Filippi report on imports of Japanese cars into the EEC, Doc. 1-997/82, Resolution of 12.1.1983, OJ C 42, 14.2.1983
- Veronesi report on basic technological research in the automobile sector, Doc. 1-235/83, Resolution of 10.6.1983, OJ C 184, 11.7.1983
- Hearing organised by the Committee on Economic and Monetary Affairs and Industrial Policy, 28-29 October 1985, Brussels.

BLOCK EXEMPTION FOR MOTOR AND SERVICING AGREEMENTS

- Welsh report, Doc. 1-192/84, Resolution of 24.5.84, OJ C 172, 2.7.1984. The EP concurred with the Commission's conclusion that the particular nature of the motor vehicle sector justifies the existence of selective and exclusive distribution systems and that this is in the interest of consumers, manufacturers and distributors.

LEAD IN PETROL/MOTOR VEHICLE EMISSIONS

- Collins report, Doc. 1-82/83, Resolution of 10.6.1983
- Ceravolo report on lead in petrol, Doc. 1-279/83, Resolution of 6.6.1983, OJ C 184, 11.7.83
- Sherlock report, Doc. 2-1149/84, Resolution of 12.12.1984, OJ C 12, 14.1.1985
The Commission adopted a number of suggestions made in the Resolution of 12.12.1984, such as a differentiation between cars according to engine size. A conciliation procedure has taken place between Parliament and Council.

QUESTIONNAIRE ON THE AUTOMOBILE INDUSTRY

I. ECONOMIC AND INDUSTRIAL IMPLICATIONS OF THE CLEAN CAR

1. How do you judge the recent compromise reached at EEC level on limiting car exhaust pollution?
Is it too limited, about right or does it go too far?
2. What will be the implications of the new directive on
 - engine and vehicle design
 - vehicle performance
 - fuel consumption
 - and other costs for the consumer (car prices and servicing requirements)?
3. What in your view will be its effect on the competitiveness of the Community automobile industry?
Will it help Community firms compete on world markets or rather will it be of more help to their competitors from third countries?
4. Do you have any precise figures as to the likely impacts :
 - on the industry's financial position?
 - on employment?
5. What in your view are the costs involved in introducing three-way catalytic converters? Have all their implications been fully examined?
How far away is the economic introduction of the lean burn engine?
6. What differences in terms of impact are there likely to be between the various Member States' automobile industries?
7. How do you judge the results of the ERGA studies on
 - noise?
 - pollution?
8. What further regulatory measures affecting the automobile industry should be taken in the environmental field, or in that of energy conservation?
Where are the two goals conflicting and where should trade-offs be made?
9. Different regulatory approaches have been adopted in countries such as the US and Japan. What lessons should be drawn by the Community from their experiences?

II. REMAINING BARRIERS TO A COMMON MARKET IN CARS

10. What technical barriers still exist to prevent the achievement of a European type-approval for passenger cars?
11. What problems remain as regards the approval and registration procedures for vehicles imported from other Member States? What abuses have there been in car supply in the Community? Has the Commission been too strict or too lenient?
12. How do you judge the EEC block exemption on selective distribution of motor vehicles? Is it too limited, go too far or about right? What do you believe will be its costs?

13. To what extent are (i) high taxation on automobiles in certain Member States and (ii) price controls distorting the Community automobile market? What scope is there for aligning them or at least reducing them?
14. Are state aids to national automobile industries within the Community
 - (i) sufficiently transparent?
 - (ii) too high / cause too many distortions?

III. IMPLICATIONS FOR THE STRUCTURE OF THE COMMUNITY AUTOMOBILE INDUSTRY OF THE INCREASED INTERNATIONALIZATION OF THE SECTOR

15. What international relations exist at present in car manufacture between
 - (a) third countries and Member States
 - (b) USA and Member States
 - (c) Member States?
16. Is Japanese investment in the Community automobile sector an advantage or a threat to the financial and employment position within the industry? What conditions (e.g. local content rules) should be imposed? How can technological dependence be avoided?
17. What will be the effect of new low cost production (assembled cars and/or components) in developing countries such as South Korea and Brazil on the Community automobile industry?
18. Do car industries outside the EEC use production technologies (e.g. automation/robotization) which are more advanced than those applied by EEC manufacturers?
19. What are the prospects for the international competitiveness of the EEC car industry? Is there a danger that it may fall behind? Is this for reasons of product quantity, production technology, labour costs, labour productivity, lack of capital...?
20. To what extent are dumping/unfair commercial practices on the part of the third countries negatively affecting the Community automobile industry, and what can be done in this regard?
21. Is the "world car" concept likely to develop, and, if so, what will be its implications for the Community automobile industry?
22. Are there too many automobile producers within the Community? Components manufacturers? Should the Community do anything to encourage the rationalization of the sector? Are further mergers necessary? How do you feel about increased cooperation between European firms and what will be the financial implications, and impacts on production patterns of such cooperative ventures?
23. How will the entry of Spain and Portugal into the Community affect the Community automobile industry, and how do you judge the transitional provisions in this regard?
24. What are the likely trends as regards investment by Community automobile producers in third countries? Are these likely to be harmful or beneficial?

AUTOMOBILE HEARING

List of responses received to the questionnaire

1. Professor Garel RHYS
University College Cardiff
Department of Economics
2. Professor M. FRYBOURG
Ingenieur general des ponts et des
chausees
Professeur associe au Conservatoire
National des Arts et Metiers
3. Mr F. PERRIN-PELLETIER
Secretary General
CCMC (Comité des Constructeurs
d'Automobiles du Marché Commun)
and
Mr H. R. GLATZ
Secretary General
CLCA (Comité de Liaison de la
Construction Automobile)
4. Mr F. BLEICHER
President
CLEPA (Compté de Liaison de la Construction
d'équipements des pièces d'automobiles)
5. Ford of Europe Inc.
6. General Motors
7. Mr M. K. ONO
Toyota Kogyo Company Limited
Mazda Motor Representatives Office
(Europe)
8. Mr Peter SCHUTZ
Chief Executive
Porsche AG
9. Mr HAMMERICH
Senior Vice-President
SAAB Scania
10. Mr Bjarne EGSTRAND
Chairman
Bilimportorsammenslutningen
11. Mr R. TODD
TGWU

12. Mr J. PHILIPSEN
CCMB
Centrale Chrétienne des
Métallurgistes de Belgique
13. Mr P. DE HAAN
Industrie- en Voedingsbond CNV
14. Mr G. JURADO
Federacion Siderometalurgica - UGT
15. Amalgamated Union of
Engineering Workers
AUEW
16. Dr. Lucas REIJNDERS
Stichting Natuur en Milieu
100.169
17. Mr Tony VENABLES
BEUC
18. Dr Lesley YEOMANS
Consumers' Association
19. Japanese Automobile Manufacturers Association - JAMA
(This response could not be included in the original summary
and is summarized in the appendix.)

HEARING ON THE EUROPEAN AUTOMOBILE INDUSTRY
MONDAY 28 - TUESDAY 29 OCTOBER 1985
LIST OF INVITED SPEAKERS

<u>NAME</u>	<u>FUNCTION</u>	<u>INSTITUTION</u>	<u>PART</u>
<u>ENVIRONMENTALISTS</u>			
Dr Lucas REIJNDERS		Stichting Natuur en Milieu, Netherlands	I, 28.10.85
<u>MOTOR VEHICLE TRADE ASSOCIATIONS</u>			
Mr PERRIN-PELLETIER	Secretary General	Comité des Constructeurs du Marché Commun, CCMC	I, 28.10.85
Mr H. GLATZ	Secretary General	Comité de Liaison de la Construction Automobile CLCA	II, 28.10.85
<u>TRADE UNIONS</u>			
Mr Guy POPIEUL	National Secretary	FGMM-CFDT, France	II, 28,10.85
Mr SCHMIDT		IG Metall, FRG	III,29.10.85
Mr M. SEPI	General Secretary	FLM, Italy	I, 29.10.85
Mr T. SULLIVAN		Transport and General Workers Union, UK	III,29.10.85
<u>MANUFACTURERS</u>			
Mr Bob LUTZ	Chairman	Ford of Europe	III,29.10.85
Mr U. AGNELLI	President	FIAT	III,29.10.85
<u>IMPORTERS</u>			
Mr EGSTRAND	Chairman	Bilimportorsammen- slutningen	II, 28.10.85
<u>CONSUMERS</u>			
Mr T. VENABLES	Director	BEUC	II, 28.10.85
<u>COMMISSION</u>			
Mr NARJES	Vice-President		I, 28.10.85
Mr R. PEETERS	DG III		II, 28.10.85
Mr CECCHINI	DG III		III,29.10.85
Mr FAIRCLOUGH	DG XI	Commission	I, 28.10.85

ECONOMIC AND INDUSTRIAL IMPLICATIONS OF THE CLEAN CAR

SUMMARY OF THE ANSWERS GIVEN TO THE
QUESTIONNAIRE ON THE AUTOMOBILE INDUSTRY

Q.1 How do you judge the recent compromise reached at EEC level on limiting car exhaust pollution ?

Is it too limited, about right or does it go too far ?

Prof. Rhys In the medium sized - 1.4 to 2.0 litre car class the emission standards are too onerous to be met by the less expensive type of lean burn engines, adding no more than £180 to £200 to the cost of any car below 2 litres. Manufacturers may have to choose costlier options :

- the development and production of lean burn engines with oxidation catalyst, oxygen sensor fuel injection and engine management which final cost may be little different to that of a three-way catalyst system (£400 to £500 extra);
- the use of existing engines with three-way catalysts by some firms, if they may not have lean burn engines of the type needed available in time to meet the regulations.;
- the development of both the three-way catalyst and lean burn technology, since the latter is regarded as the technology of the future. This will increase expenditures considerably.

Prof. Frybourg The compromise seems satisfactory given the initial differences in Member States' positions. Consequences are :

- eventual reduction of car exhaust pollution by more than 50%;
- development of a broad range of anti-pollution systems, some of which are still in the research stage (lean burn engines);
- consumption of lower quality unleaded petrol;
- higher financial and energy costs;
- anticipation by certain Member States of the implementation by tax incentives.

CCMC; CLCA

- The decisions on future emissions standards were made primarily in response to political challenges rather than long term necessities;
- The causal link between acid rain or forest damage and emissions from motor vehicles is not proven.

- The Commission has failed to insist upon its 1981 "global approach" initiative which was meant to examine the impact of measures in a global context e.g. noise regulation, technology safety, cost/benefits.
- The decisions will increase the cost of cars and their maintenance, which is likely to provoke market disturbances.
- The standards for cars between 1.4 and 2 litres imply considerable investments by car manufacturers.
- There will be divergence in emission standards in W. Europe both within and outside the Community; prior compliance with the Community standards in certain countries will deprive the industry of reasonable lead times. All this implies a further step away from one unified car market in W. Europe.

CLEPA

- The Community compromise is welcome in so far as any isolated national measures would have been unrealistic.
- It does not go far enough because it applies initially to vehicles with a cubic capacity over 2 litres.

Ford

- We are glad that a compromise has been reached.
- Concern for the continuing reservation of Denmark.
- The standards are very tough, particularly for large cars.
- For medium cars, the standards are so tough that the most costly of the possible lean burn solutions will be required; the compromise has reduced the incentive to develop this new European technology (lean burn) which offers the prospect of substantially improved environmental impact with improved fuel economy, cost-of-ownership and reliability.
- Three-way catalyst systems are not fuel efficient, whereas the most direct way to reduce emissions is to burn less.
- It is hoped that the new emission standards will be accepted by all W. European countries; Sweden, Switzerland and Austria already have their own national standards.
- Given the competing theories about the causes of forest damage, including the research results at Stuttgart University about virus linked forest damage, as opposed to "acid rain", we have doubts about the appropriateness of

precipitate legislative action on emissions. Only 9 percent of acid rain is attributable to vehicle emissions. It may well be that the money to be devoted to much more stringent emissions control would be better spent on some other aspect of health and safety, particularly road safety.

- General Motors - It is probably a reasonable political compromise.
- From a technical point of view it has gone too far, given the environmental needs of the UK. There will be major price increases.
- Mazda
- Some of the details of the requirements such as test mode have not been established.
 - Hopefully the Commission will make an appeal to Austria, Switzerland and Sweden to modify their standards towards EEC limits.
- Porsche
- The reduction of exhaust gases is welcome.
 - It is a pity that international maximum permitted levels and measurement techniques are not approximated.
 - It is scientifically not known whether the levels are adequate to protect the environment.
- SAAB-Scania
- It is too limited because Scandinavia, Switzerland and Austria will go further, aiming at US standards.
- Danish Assoc.
- It goes too far since the part played by cars in pollution as of Car Importers a whole is a small one.
- TGWU
- The EEC compromise at best necessitates the wasteful development of two technologies and at worst gives a stimulus, and a precedence, to the three-way converter over the lean burn engine.
 - There seems to be uncertainty as to exactly what technology will be required to meet the new standards.

- CCMB
- Only partly satisfied since the Compromise will not be applied at the same time in all Member States.
 - A uniform technical check on cars in all countries is missing.
 - Attention to other sources of environment pollution.
 - A uniform system of speed limits has to be worked out.
- CNV
- Just far enough.
- UGT
- The compromise increases the cost of manufacturing and inhibits car sales.
- Amalgamated
Union of
Engineering
Workers
- Compromise is about right, given the fact that all options are still open and there will be room to tighten up standards at a convenient time.
 - It would appear that the standard of combining the hydrocarbon and nitrogen oxide of 8 grammes for medium sized cars is attainable with present lean burn technology.
- Natuur en
Milieu
- It does not go far enough :
- In order to reduce effectively environmental damage, emissions of burning fossil fuels have to be reduced by 75-80% in a period of 5-10 years;
 - The compromise will lead only to a reduction of 5-15% of hydrocarbon and nitrogen oxide emissions over a period of 5-15 years, assuming equal car use.
- Consumers'
Association
- It is unacceptable that UK consumers have to wait until 1993 before medium sized cars, which are the most popular family cars in the UK are required to run on unleaded petrol.
 - Because of the significant advantages of lean burn technology over catalytic converters, it is in the consumers' interest to allow manufacturers time to develop lean burn engines before requiring them to meet strict new emission standards. There is concern that the limits agreed for cars in the medium-sized group may be at the limits of what can be achieved by lean burn technology.
 - There is no justification for the differentiation in the timetable for new model types and all new cars.

Q.2 What will be the implications of the new directive on

- engine and vehicle design
- vehicle performance
- fuel consumption
- and other costs for the consumer (car prices and servicing requirements)

Respondent	Engine and vehicle design	Vehicle performance	Fuel consumption	Other costs
Prof. Rhys	Three-way catalyst as a "hang on" device i.e. catalyst plus electronics for engines above 1.8 litres may be the only solution.	Unaffected, if with high octane figure for lead free petrol.	Increase; fuel economy loss of 5-10% compared with lean burn engines.	Initial costs £325-£500 extra per car. Replacement catalyst: £100-£200 (depending on capacity engine) Annual running costs 13% higher vis-à-vis lean burn engine.
	Lean burn engine recent technology.	Loss of engine power; electronics may be needed to overcome power loss.	Improves fuel efficiency (10-15%)	Initial costs £50-£100 extra; +/- £375 for lean burn engine plus catalyst and electronics
Prof. Frybourg	Alterations to compression ratios and ignition control development of lean burn engines, fuel-feed systems ancillary systems (recycling exhaust systems)	Lower for equal capacity depending on anti-pollution devices used and capacity classification.	Increased consumption for catalyst system.	Significant price increase depending on engine capacity and fuel consumption.

1
0
1

CCMC; CLCA	<p>Cars over 2 litres: 3 way catalytic converters plus sensors and injection systems.</p> <p>Cars between 1.4 and 2 litres: 3 way catalytic converters or possibly lean burn plus oxidation catalysts and electronics.</p> <p>Cars below 1.4 litres: lean burn technology possible.</p>	<p>Will suffer somewhat.</p> <p>Will suffer</p>	<p>Increase; unleaded fuel.</p> <p>Uncertain; unleaded fuel.</p>	<p>Increase car prices depending on consumption replacement catalyst.</p> <p>Increase several percentage points; replacement of catalyst.</p>
Ford	<p>Large cars: 3 way catalyst changes floor pan and exhaust system, heat protection</p> <p>Medium cars</p> <ul style="list-style-type: none"> - open loop or closed loop lean burn plus oxidation catalyst, plus electronics - 3 way catalyst <p>Small cars</p> <p>lean burn engines</p>		<ul style="list-style-type: none"> - 10-15% more - improvement efficiency by 12-20% <p>as with large cars 12 percent better</p>	<ul style="list-style-type: none"> - 850 ECU extra - servicing more expensive - 350 ECU extra - service intervals as now or less frequent; closed loop more expensive servicing. <p>As with large cars</p> <ul style="list-style-type: none"> - 150 ECU extra - servicing as with today's cars
General Motors				Increase substantial

Mazda	Major reviews of engine systems and body development (setting power train, weight reduction coefficient of drag).	Goes down	Will not be so adversely affected.	Supply system of unleaded petrol.
Porsche			Possibly higher.	Lead-free petrol; octane level should be as high as possible. Possibly higher maintenance cost.
SAAB-Scania		Slightly impaired	Increase 3-4%	Car prices up by \$500, depending on model; maintenance up \$40 annually.
TGWU cites British Leyland and Ford UK	3 way catalytic converter plus control systems.	Worsens	£70 per annum extra costs.	£1100 price increase for medium sized cars converter replacement. Cost projections 50% less than those suggested by BL by less complicated additions to the engine.
Is in favour of lean burn engine with lower capital cost, better fuel consumption and improved performance. Other cost considerations concern : fuel reserves, balance of payments, financial and pollution costs of refining.				

CCMB	Lighter models have to be built to offset higher energy consumption and lower performance.	Declines with catalytic converters.	Rises - with lead free: 1 to 2% - with catalytic converter : 10 to 15%	- lead free petrol: increase 1 to 2 Francs per litre - catalytic converter: 37,000 to 50,000 BFRs extra - replacement catalyst - dependence Middle East for lead substitutes - import expensive precious materials.
CNV	No change in design.	Somewhat lower	About the same	Purchase price: higher Maintenance cost: higher
UGT	With stringent rules: catalytic converters. Less stringent rules: new carburetor systems, electronics; major design change.		Increase for medium sized cars (1100 kgs).	10% purchase price increase (medium cars). Purchase price and maintenance cost of vehicles at the top end of the range hardly affected.
Natuur en Milieu				-For large and medium sized cars: purchase price somewhat higher -cost of ownership increase -other costs for environment reduced; total social cost of car driving reduced.

Consumers' Organization	<p>(a) <u>Large cars</u> (over 2 litres): 3 way catalytic converters weight reduction</p> <p>(b) <u>Small cars</u> (under 1.4 litres) <u>lean burn technology</u> : possible for relaxed Community standards although car manufacturers will also use the more expensive <u>catalyst</u> to achieve <u>emission limits</u> required.</p> <p>(c) <u>Medium sized cars</u> (1.4 - 2 litres)</p>	Reduced depending on octane rating	Increase depending on octane rating	<p>-car price increase by £350-£500</p> <p>-catalyst replacement</p> <p>-price unleaded petrol</p> <p>-simple lean burn increases car prices by £5 - £100</p> <p>-less maintenance cost vis-à-vis cars with catalysts.</p>
<p>Emission limits for this category of cars are set at levels which are at the limits of what can be achieved using lean burn engines. Therefore lean burn cars have to be fitted with an oxidation catalyst and/or fuel control systems to reduce hydro carbon emissions. Total extra costs would be in line with three-way catalysts. Fuel efficiency of a lean burn engine with an oxidation catalyst is better than that of similar engines equipped with three-way catalysts. Lean burn engines are not ready for mass production and are unlikely to be so before the end of the decade. It is important that the development of lean burn engines is not abandoned in favour of catalytic converters.</p>				

Q.3 What in your view will be its effect on the competitiveness of the Community automobile industry ?

Will it help Community firms compete on world markets or rather will it be of more help to their competitors from third countries ?

Prof. Rhys The new regulations will not help European exports significantly. If manufacturers in Europe duplicate their expenditures by developing three-way catalyst and lean burn, they could encounter uncompetitive costs.

To meet exhaust emission regulations in the US market, which is W. Europe's largest, requires the use of three-way catalysts. Only the 1.6 litre Toyota-T, which is a complex lean burn car, might meet US regulations. Because of the cost advantage of Japanese car makers it is unlikely that the Emissions Compromise will help very much in eroding the Japanese price advantage in the USA or Japan. US multinationals will be in a very good position to take advantage of the new European regulations.

Prof. Frybourg Benefits third country competitors (Japan, USA) in top-range models and probably some mid-range models. Community industries which specialize in top-range models may benefit. Component manufacturers will be seriously affected.

CCMC; CLCA Japanese and US manufacturers benefit.

Ford - Compromise is tough both for the emission levels and the time table.

 - Deterioration of European competitiveness in short to medium term.

 - Three-way catalysts are the norm in Japan; Japanese penetration in W. Europe will increase. Japanese will also develop lean burn technology (Toyota). Japanese have a superior cash flow to finance development, whereas the European car industry will be faced with extra cost at a time when it is least able to afford it.

- Manufacturers will be confronted with three, possibly four different emissions standards across Europe.

- Porsche Manufacturers in third countries have an economic advantage in the short term.
- SAAB-Scania Competitiveness will be reduced. Towards the middle of the 1990s, the competitive position will probably even out.
- TGWU It damages the competitiveness of the Community automobile industry. Japan has already the experience and expertise with catalytic converters and (recently) with Toyota's lean burn car.
- CCMB It is a handicap for European companies that are not active in the American or Californian market. Research among European firms lags behind. Cooperation among firms in Europe could avoid wasting resources for the development of technologies; the EUREKA framework could be instrumental for research support.
- UGT Worsening of competitiveness.
- Natuur en Milieu The compromise does stimulate the "stick-in-the-mud" mentality of the Community's car industry. The European consumer will increasingly turn away from European cars.

- Q.4 Do you have any precise figures as to the likely impacts :
- on the industry's financial position ?
 - on employment ?

Prof. Rhys Financial Position :

- The extra costs falling on the European motorist, using three-way catalysts, are estimated at £9 billion a year for first cost, fuel inefficiency and maintenance.
- If the car manufacturers pass on all the increase in vehicle costs to the consumer and the price of cars increases by 5% and sales fall by 5%, assuming a price elasticity of demand for cars of being equal to one, then total demand could be reduced by about 500,000 units. This would result in a revenue loss of £2 billion for European manufacturers.
- Estimates for investment in re-designing, re-tooling and production facilities for medium-car engines, using catalysts, vary from £1 to £2 billion, depending on the number of engine projects and cooperation among manufacturers.

Employment :

- If output falls, then employment falls. For the fall in output of one car, about four to seven jobs are lost.
- However, demand may be less negatively affected depending on the car-makers' financial position to absorb the costs themselves, instead of passing them to the consumer.
- If car demand is unaffected, then the greater value per car would represent more job opportunities.

- Prof. Frybourg - Drain on car-manufacturers' resources for R & D.
- Possible job losses initially in anticipation of Community's measures in certain countries, or because of a fall in sales for certain manufacturers. Job increases in some component manufacturers and in the creation of new industries.

- CCMC; CLCA
- Very significant investment in R & D. Investments in engine production are normally made under the assumption that the engine will be produced for 15-20 years.
 - The European car industry is deprived of reasonable lead-times (at least 4 years ahead of the introduction of new emission requirements).
 - In most cases cost of cars and of their maintenance will increase considerably and this risks provoking market disturbances (fall in demand).
- Ford
- Substantial impact on costs.
 - Further pressure towards a major "Shakeout" (employment).
- SAAB-Scania
- Higher fixed costs for R & D.
 - Employment will suffer because of price-demand relationship.
- TGWU
- Employment situation also depends on such factors as productivity, automation and market shares.
- CCMB
- Consumer is very badly informed technically; as a result he may not make a purchase now.
- UGT
- Sharp rise in the industry's financing needs.
 - The impact on employment would be negative if demand falls as a result of high purchase price and maintenance costs.

Q.5 What in your view are the costs involved in introducing three-way catalytic converters ?

Have all their implications been fully examined ?

How far away is the economic introduction of the lean burn engine ?

- Prof. Rhys
- The extra costs of using three-way catalytic converters i.e. increased car prices, reduced opportunities for fuel savings, higher maintenance costs, have been put at £9 billion a year. Half of this extra cost may disappear with a reduction of maintenance costs, and a decrease in unit cost because of mass production.
 - Presumably all implications have been fully examined (see also Answer No. 6).
 - First-stage lean burn engines have been available since 1983. Second-stage lean burn engines will appear in 1986. The third-stage lean burn engine, if used with electronic management systems, oxygen sensors, electronic ignition and oxidation catalysts could need rigorous emission regulations. However, the cost would be similar to a catalytic system.
 - The European industry has lean burn engines in place or in development for engines under 1.4 litres. Engines over 2 litres will need three-way catalysts. In the 1.4 - 2.0 litre class, the recent compromise means that at least second-stage lean burn engines, but probably third stage (or even three-way catalysts for some cars), with oxidation catalyst and electronic engine management systems will be needed.

Prof. Frybourg The cost-effectiveness of the lean burn engine is dependent on its anti-pollutant properties (generations of lean burn engines), how long the standards for mid-range models will apply and on the choice to be made in 1987 for vehicles under 1.4 litres.

- CCLM; CLCA See Answer to Question No. 2.
- Ford
- Annual cost to Community could exceed 10 billion ECU (EC Commission estimate).
 - Raw materials cost, e.g. the cost of Rhodium, and dependence.
 - Ford has in production four "1st generation" lean burn engines; two "2nd generation engines" will be added in 1986 and the "3rd generation" will be produced well before 1990.
- General Motors
- The introduction of three-way catalytic converters implies also full engine management systems which usually require injection petrol engines and computer control. The catalytic converter system requires engines to operate at an air fuel ratio of 14.7:1, implying that there is no capability within the engine itself to improve fuel consumption.
 - Lean burn engines operate at air fuel ratios of between 18:1 and 22:1. They need a great deal of development (as does the three-way converter system) in order to comply both with the legal emission requirements and with the driver's satisfaction.
- Mazda
- Extra cost per unit for installing catalytic converters : DM 1500 to DM 2000.
 - Three-way catalyst is the only way to comply with the US 1983 norm.
 - When all the details of the EEC emission directive are finally decided, Mazda will study the possibility of lean burn technology, taking into account European driving conditions and the European market.
- Porsche
- The first generation of lean burn engines will be introduced in 4 to 5 years time.
- SAAB-Scania
- The cars, which Saab built to US specifications are about \$400 more expensive than the same car built to European specifications.

- TGWU Possible omissions in evaluating the costs of the three-way converter are : increased fuel usage; refining costs; balance of payments; long term reliability of catalysts; possible delay in the introduction of lean burn engines; possible obsolete technology. Toyota has a lean burn engine in production and Ford plans to go into production in 1987.
- CCMB
- The implications have not all been adequately studied e.g. the social cost (avoiding pollution) fiscal costs of introduction, funding research from public funds.
 - Believes that lean burn engine is possibly the engine of the future, but has no further data on the economic introduction.
- Amalgamated
Union of
Engineering
Workers
- Reservations as to the cost of catalytic converters. For example, it notes the approximate three fold price rise of the scarce element Rhodium in the past 12 months.
 - The UK has a commitment from Ford to build a lean burn engine in Essex. BL's Austin Rover is also in favour of the lean burn but asked for a slightly higher hydrocarbon and nitrogen oxide content in the Compromise.
The industry is not far away from an economic lean burn engine.

Q.6 What differences in terms of impact are there likely to be between the various Member States' automobile industries?

- Prof. Rhys
- W. Germans (and Swedes) have an advantage by selling already to the USA catalyst equipped, high performance cars; concentrating resources on the three-way catalyst and devoting much of their production to cars over 2 litres. The early introduction of exhaust emission regulations in W. Germany can only be met by three-way catalyst in which German firms have a comparative advantage. This could prove to be the source of significant non-tariff barriers to intra-Community trade, particularly if other Member States set up their own standards under the guise of meeting common European standards.
 - French and Italian industries are mainly concerned with the small category car and, therefore, face a straightforward and efficient solution in lean burn engines, which are in development.
 - The UK manufacturers with their emphasis on medium size cars are hit by the introduction of tougher than expected limits for the 1.4 - 2.0 litre class. In the medium class, Community emission standards cannot be met by lean burn alone (cost £150 extra), but by lean burn plus improved fuel injection and oxidation catalyst or by fitting three-way catalyst (£375 to £500). The relative price increase for medium sized cars will be greater than for other categories of cars. Hence demand could be disproportionately harmed.

Prof. Frybourg Impact depends on :

- 1) level of the range produced by manufacturer;
- 2) relative amounts of sales on Community and non-Community markets;
- 3) dates of implementation (voluntary or compulsory) in the various countries.

- CCMC; CLCA Differences in impact are caused partly by a deterioration of a unified car market in W. Europe : divergence in emission standards (UN/ECE, EEC, various national norms); in the wake of final Council decisions there are various national incentives within the EEC to encourage prior compliance with EEC standards e.g. W. German measures having taken effect on 1 July 1985, Dutch incentives planned for 1 January 1986. Trade barriers, also intra-EEC, are bound to emerge.
- CLEPA Discrimination against the German car industry.
- Ford
- The car industries of the UK, France and Italy will suffer disproportionately. They have a disadvantage in the provision of three-way catalyst vehicles.
 - The German car industry, although severely disrupted, will have an advantage in Germany itself, the US and in countries such as Austria and Switzerland because of the three-way catalyst.
 - No European car industry will really benefit because of the market disruptions and extra burdens imposed.
- General Motors
- National fiscal incentives distort the market.
 - Possibly different countries will adopt different levels of emissions control for their domestic needs.
- TGWU Depends on (a) state aids, national pricing and tax policies; (b) timetable of introduction; (c) type of vehicles produced. Prevent some countries using the new standards to erect de facto trade barriers to protect their own industries.
- UGT Italy, France and Spain will be affected most adversely.

Q.7 How do you judge the results of the ERGA studies on

- noise ?
- pollution ?

Prof. Frybourg The results of the ERGA (Evolution of Regulation - Global Approach) are the only basis for comparative assessment at a European level concerning technical and financial aspects. The findings remain valid today.

CCMC; CLCA The Commission failed to ensure that due account was taken of the ERGA studies.

Ford Well done. The preferred solutions of the Pollution Report (i.e. lean burn) were largely ignored by certain major countries.

Mazda More indepth studies should have been made of "preservation of environment in relation to energy saving cost performance and problems between automobile industries."

Porsche The ERGA's findings have been made redundant by the recent decisions.

General Motors Are of great interest and value.

**Amalgamated
Union of
Engineering
Workers** Information in the studies is most helpful.

**Natuur en
Milieu** They are biased in favour of the car industry; calculations are not objective; invite environment groups, independent experts from the USA and Japan in future studies.

Consumers'
Association

Supports ERGA views. ERGA study on pollution was agreed by all the interests involved - industry, governments, and consumers. Consumer cost evidence was submitted by BEUC. Costs of removing lead from petrol would not be great. ERGA did not address in detail the questions of catalysts or lean burn engines for controlling other pollutants.

Q.8 What further regulatory measures affecting the automobile industry should be taken in the environmental field, or in that of energy conservation ? Where are the two goals conflicting and where should trade-offs be made ?

Prof. Rhys - Three-way catalysts appear to conflict with the needs of energy conservation, they need careful maintenance. However, they are at the moment theoretically the best route to reducing pollution.
- Lean burn engines are more fuel efficient.

Prof. Frybourg The Council guidelines of 28 June 1985 cover all aspects; no measures to regulate energy conservation are envisaged.

CCMC; CLCA Ensure widespread availability of unleaded premium petrol, which is pre-requisite for the proper functioning of catalytic converters.

CLEPA - Availability of non-leaded petrol.
- Only specification of objectives and standards, not of the technical means to achieve them.
- Extension of Community standards throughout Europe.

Ford - None, other than those currently envisaged.
- Study the implications of the present decisions.
- The large car decisions are contrary to all the decisions in the energy conservation field. Energy conservation in itself reduces pollution.
Throughout the emissions debate there has been little consideration of the impact on the consumer of alternative standards.

General Motors - There is no opportunity for developing fuel efficient engines once the path to three-way catalyst converter systems has been taken.
- Close legislative gaps concerning
a) specific gravity of diesel fuel, which influences smoke level;

- b) the cetane value of diesel, affecting the noise level.
- Specification of the road surface to control noise.

- Mazda Inform the public about the relationships between
- a) environment disruption and car emissions
 - b) environment protection and automobile cost.
- Porsche Discover what levels of nitrogen oxide are really necessary.
Too low levels will lead to a marked increase in fuel
consumption.
- SAAB-Scania - One rule system for the entire world.
- Energy conservation can be left to the market or can be
influenced by taxation.
- TGWU Need for stability. Therefore the EEC should not pursue any
further regulatory measures.
- CCMB - Directive on technical checks in order to attain current
standards.
- Doubt whether the EC can resolve energy consumption by
regulation.
- European research into rational use of energy; technological
cooperation should be coordinated by the EC institutions.
- CNV - Reduce emissions from industry first, then car exhaust
emissions.
- UGT - With conventional technology, environmental and energy
considerations are opposed.
- Natuur en
Milieu a) As regards the petrol car, replace the compromise by the US
1983 norms, followed by the imminent Californian norms.
b) For the diesel engine, reduce sulphur content to 25% of the
present level, compulsory exhaust emission recirculation and
trapoxydizer.
c) For petrol and diesel cars reduce the noise level norm,
applicable from 1988/1989, by at least 4 dB(A).

d) Uniform introduction of a maximum speed limit of 100 km/h.

Consumers' Association - More impact studies in the field of environmental pollution.
- More extensive monitoring of the environment by the EEC.

Q.9 Different regulatory approaches have been adopted in countries such as the US and Japan. What lessons should be drawn by the Community from their experiences ?

Prof. Rhys

- Regulate fuel prices, as the Japanese have done, to ensure that unleaded petrol is cheaper than leaded. The higher, unregulated, prices for unleaded petrol in the USA induced US motorists to use leaded petrol, thereby making catalysts inoperative.
- Draw regulations, similar to Japanese practice, in such a way as to allow the practical development and introduction of alternative technologies.

Prof. Frybourg

- It is not possible to transfer the solutions and approaches of the USA and Japan to Europe because of different traffic conditions. Air pollution problems in the US and Japan are still not resolved despite very stringent car exhaust-emission standards.
- More research is needed to find economically viable technological solutions for air pollution.

CCMC; CLCA

- Avoid misfuelling problems by making unleaded petrol attractive economically.
- The USA is an example to demonstrate that tight norms do not lead to low levels of air pollution.
- Make uniform European standards because the strict national emission standards in Sweden and Switzerland had little impact on air quality, in those countries due to the international and intercontinental exchange of pollutants.
- The USA and Japan have introduced regulations appropriate to their own type of environment problems, traffic conditions and their own automobile industry. Technically, it was no major problem to re-design the American cars to accommodate catalytic converters because of large under-bonnet and underfloor space availability. Also negative implications on fuel consumption and vehicle performance were neglected because fuel was cheap and energy saving was no priority.

Adjustment for Japanese manufacturers to strict emission standards was not simple, but it was easier because of the relatively low car performance requirements in Japan.

- CLEPA
- Community regulations should be initially designed to cope with European conditions.
 - In a subsequent phase, it would be the economically most rational solution to produce cars which meet the requirements of European, US and Japanese markets.
- Ford
- The US system often rides rough-shot over cost-benefit considerations and has tended to mandate immature technology, whereas the Japanese system is based on total consensus and established technology.
To date European practice has tended to be based on proven, but not necessarily established technology.
 - The consensus approach of the United Nations ECE system at Geneva has advantages to that of the EC at Brussels.
- General Motors - Harmonize regulations throughout the world.
- Porsche
- Do not copy Japan and the US; investigate real environmental needs to establish norms for all sources of pollution.
- SAAB-Scania
- Avoid different rule systems.
- TGWU
- The Commission is not to regulate for the sake of it. The US is currently removing those regulations which can no longer show a net benefit and it minimizes new regulations.
 - In Japan, although there have been stringent regulations, there has also been flexibility and manufacturers have more quickly reacted voluntarily.
- CCMB
- Establish European standards. These have to be as uniform as possible as regards date of introduction, maximum levels, controls, speed limits.

UGT The US and Japan have reconciled to a large degree the requirements of their own car industries and of their environmental problems. The conflicting interests between the car industries in the Community emphasizes the need for Community policies in this sector.

Natuur en The lesson is that the EC has to adopt the stricter US and
Milieu Japanese norms as soon as possible.

ECONOMIC AND INDUSTRIAL IMPLICATIONS OF THE CLEAN CAR

SYNOPSIS OF THE HEARING ON
THE EUROPEAN AUTOMOBILE INDUSTRY

INTRODUCTIONS, QUESTIONS AND ANSWERS

on Monday, 28 October 1985, 3:00 - 5:00 p.m.

Monday, 28 October

3:00 - 5:00 p.m.

I. CLEAN CAR

OPENING STATEMENTS

Dr. L. REYNDERS, "Stichting Natuur en Milieu"

- In order to combat pollution effectively, exhaust emissions should be reduced to 25% of current levels; automobiles should contribute pro-rata to this reduction. The June agreement does not meet this target and has been highly disappointing from the environmental point of view.

Dr. P. Walsh has calculated in his study "The impact of Relaxed Standards on Europe's Environment" (included in the written response to the questionnaire) that the new emission norms will lead to a reduction of only 5-15% of current NOx and HC levels for personal cars, assuming equal car use.

The Touring Club of Switzerland has made measurements which make clear that a middle-class car, such as the VW-Golf, does not emit more than 20% of the established EEC limits for 1991/1993. Middle-class cars often meet the limits for 1991/1993 without catalysts.

- Replace the June agreement with a better deal, possibly with the coming Californian criteria, and move the deadlines forward, which is possible because at the last Frankfurt automobile exhibition, 80% of the cars were equipped with catalysts.
- Switzerland will go ahead with the catalyst norms by October 1987, well in advance of EEC regulations.
- Combat acid rain by (i) reducing sulphur content in diesel fuel to 25% of current levels as soon as possible (ii) introducing maximum speed limit of 100 km/h throughout the EEC.
- The costs of more stringent measures are not excessive at all, given the resulting lower consumption of fuel, reduced maintenance costs, less environmental damage and the opportunity for the European automobile industry to catch up with the US and Japanese car makers, who are 10 to 15 years ahead because of more advanced emission norms.

Mr PERRIN-PELLETIER (CCMC)

- Automobiles cause only 10% of current pollution levels; non-nuclear electricity production is the main culprit.
- In the USA, derogations are applied for non-proven technological solutions in the car-emissions field; in Europe such derogations are not given since Europe has opted for effective, technologically feasible, solutions. Car manufacturers in Europe thus operate under different constraints.
- The limit values of the Council compromise of 27 June 1985 impose a further reduction on top of those already achieved in the past (Directive 83/351/EEC or Regulation UN/ECE 15.04). We will have an atmosphere of a standard close to or better than that brought about by American standards. Dr Reynders' data concerning the effect of new regulations on air quality are contested.
- European car manufacturers are leading the way to reduce relative fuel consumption, which is also the best way to reduce emissions. Without any regulatory requirements, fuel consumption has been cut down for new cars by over 15% on average in the period 1978 - 1984. To make further reductions it is necessary to have good quality fuel available.
- Catalysts need space and operate at high temperatures (500-900°C).
- For small cars, the fitting of catalysts will involve a rise of 20% in manufacturing costs per car; for large cars this increase is limited to 5%. Therefore, it is wise to have special regulations for small cars. The overall costs of fitting 3-way catalysts will be around 15 billion ECU per year (purchase price, extra fuel consumption, maintenance). There will be a dependency on South African Rhodium, an element necessary for the 3-way catalyst. In the last year the price increase has been four-fold.
- Regulation entails administrative costs not only for public bodies but also for manufacturers. For example, General Motors has 25,000 employees alone, working in this field.
- The lean-burn solution still needs time for development.
- There is uncertainty about the European test-cycle and it is regrettable that some governments have taken unilateral steps to regulate car emission norms (early introduction of EEC regulations in W. Germany; Denmark, Switzerland and Austria envisage regulations different from Community norms).

- Consistency, continuity, the taking into account of lead-times and the international environment are the principal elements of sensible regulation policy. Also in the USA the attitude towards emission regulations has become more cautious, in the direction of more careful impact assessment of regulations, safeguarding the interests of the industry. "Society needs protection, but sometimes we need protection against protection." (letter, Mr Goldschmidt, US Secretary of Transport, 1981).

Mr M. SEPI (FLM)

- Atmospheric pollution has always been a major concern for the trade unions in the interests of the protection of workers' health. Anti-pollution controls have to be put in an industrial policy framework.
- The compromise is cautiously welcomed because the 5-year introduction period gives an opportunity for European industry to find effective anti-pollution solutions both for catalyst equipped and lean-burn engines. Given the enormous costs to develop new engines and models, the additional cost of adding anti-pollution devices should not be prohibitive. Performance and fuel consumption depend upon the technological path which the industry takes.
- In the short term, Japanese and US car makers will enjoy a competitive advantage, but European industry must eventually be able to compete. The European car industry should direct its efforts more towards the development of new products than to the development of production methods .
- Although the catalytic converter is immediately available, it has also great disadvantages vis-à-vis the lean burn engine, which can be developed in the coming 5 year period.
- A European solution has to be found for the problem of heat production (e.g. power plants), industrial waste and pollution. A more favourable attitude should be taken towards public transport and the limitation of traffic in urban centres.
- The Community may play an important role in contributing to the financing of the development of the clean engine; giving a stimulus to industrial cooperation and competitiveness of the European car industry.

QUESTIONS

Which catalytic elements are needed for the catalyst equipped car ? Where do they come from ? What is the reason behind the dramatic price increase of Rhodium ? Can catalysts be recycled ? Are there alternatives to the catalyst solution ?

- Four elements are used as catalysts in engines : Platinum, Palladium, Iridium and Rhodium. The main supplier in the Western World is the Republic of South Africa; the USSR is also a main producer. Rhodium is essential for 3-way catalytic converters and reduces NOx; for oxidation catalysts, Platinum would suffice.
- The reasons why Rhodium has risen in price may be very complex. Speculation may be one factor, political uncertainty in South Africa another. At the moment, the USA is the main market for Rhodium. The European stock situation is not known but it appears that the USA has only 4 months' stock.
- Catalysts used in cars are not recycled in the USA. It appears that recycling is not profitable.
- The alternative to the catalyst-equipped car is the lean-burn engine. However, once standards for emissions become stricter one has to use catalysts. The lean-burn engine is still in an earlier development stage compared with the catalyst solution, which is widely available and is used in the USA, Japan and some European countries.

Do catalyst-equipped cars consume relatively more fuel than cars without catalysts ? Will petrol prices rise ? Does the speed of the car affect the effectiveness of the catalyst ?

- Mr Reynders quoted results from a Canadian study in which Volkswagens with catalysts consumed, on average, 7% less than Volkswagens without catalysts. Similar results appeared in a Swiss study. One possible reason might be that catalyst-equipped cars have improved control systems for fuel.
Mr Perrin-Pelletier, on the other hand, said that cars with catalysts definitely consume more fuel. It is very important to have unleaded fuel available throughout the Community because leaded fuel poisons the

catalyst. The car industry wants high quality petrol (96 Octane rating). Mr Reynders believes that the cost of producing unleaded petrol will be higher, also because of the additives for the anti-knock effect, on which the BEUC has done a study. However, national states are advised to use tax measures, by imposing a variable tax on petrol according to the principle "the polluter pays".

- Catalysts work well at speeds between 90 and 140 km/hr. It is interesting to note that at low temperatures the catalyst does not function. Mr Reynders thinks that the speed limit of 100 km/hr for the Community is a wise thing to do because :
 - (a) lower speeds considerably diminish fuel consumption which is always the best way to combat pollution;
 - (b) accidents decrease significantly, (World Safety Year).

To what extent are the real causes of dying forests known ?

Mr Perrin-Pelletier says that there is a definite possibility that the real roots of the ecological problem are not yet understood. The factors are probably multiple and complex. The new emission norms may be focused upon the wrong or less significant causes and thereby permit the ecological problems to become worse. Mr Reynders agrees that the causes are very complicated. There is emerging evidence that successive and cooperating stresses are at work, differentiated in primary stresses (oxidizing smog, acid rain, heavy metals) and secondary stresses which get a chance to develop when organisms are vulnerable (e.g. viruses).

What scope is there for joint ventures to develop "clean" cars and engines ? Should the Community contribute to this ?

- Mr Perrin-Pelletier emphasized that automobile research is carried out in the Joint Research Committee concerning 30 research fields on a precompetitive basis. When needed, there are agreements to develop, jointly, an engine (e.g. Peugeot-Fiat) whose lifetime is normally 15 years. When the engine is developed, which is a long-term endeavour, the anti-pollution device is also included. However, joint research and development into anti-pollution devices leading to a commercial product

has not yet been carried out in Europe. One of the reasons is that the different competitive positions among firms are causing too much stress for such a specific joint venture.

- Mr Sepi pleaded for a financial contribution from the Community in the development of a clean car. The Belgian trade union of metal workers (CCMB) mentioned, in its written answer to the questionnaire, the EUREKA framework for possible research support.

Do the new regulations affect the competitive position of the European car industry ?

- Mr Perrin-Pelletier stressed that the industry needs regulations that last long enough to recover the initial investment costs. European standards are necessary. The developments today indicate that Europe will be divided because the Nordic countries and Austria are to introduce standards similar to those in the US. This means that eventually in those countries, including Switzerland, only catalyst equipped cars will be on the market. The technology of catalyst is not a major problem for the European car industry, as shown at the last automobile show in Frankfurt, where all car manufacturers had models with catalysts in each market range. However, those firms which have experience of selling on the US market will benefit from strict emission standards. For small cars the standards are different, which means that fewer and more expensive models will be sold in Switzerland, Austria and Sweden. The tax incentives in W. Germany and the Netherlands for the purchase of new "clean" cars will introduce another element of distortion in competition because of insufficient lead times for some car manufacturers.
- In general, the Japanese car industry has the experience to sell cars with catalysts in large volumes; therefore they will be in a favourable position when new emission norms in Europe are applied.

In which direction do particle-emission standards for diesel engines have to be worked out by the Commission ?

- Mr Perrin-Pelletier stated that a global approach for diesel engines has to be taken, if particle emissions are deemed to be dangerous. A cost benefit analysis of regulations limiting particle emissions has to be made, taking into account European conditions.
- The diesel engine is well developed in W. Europe and particularly in W. Germany. Diesel engine emissions of CO and HC are less polluting than petrol engines. The sudden regulations in the USA for particle emissions from diesel engines have made the diesel engine disappear. Ford and General Motors have ceased production of the diesel engine.

COMMISSION STATEMENTS

Mr NARJES

- The Commission will carry out the March-June decisions of the Council. The Commission hopes for an agreement with the Danes who have made a general reservation about the June compromise.* The Californian experience with diesel norms is known to the Commission and will be taken into account in the Commission proposals.
- There will be a spin-off for the European car industry from the Community research programmes in laser, robot and micro-electronics technology.
- The European car industry has not become less competitive in the past years. However, in the small cars category, the Japanese car industry enjoys a competitive edge. Certainly, the substantial cooperation between Japanese and American firms will have consequences for the world car market.
- The Commission's task is to help the automobile industry by eliminating obstacles in the internal market. This is connected with the realization of a common external policy. The Commission considers that the Danish tax on cars cannot be maintained in the long run.

* In the Environmental Committee meeting of 28 November 1985, Danish reservations about EC emission norms continued.

The Commission does not have a master-plan for the European automobile industry. Step-by-step policies will ensure that by the end of 1992 a common market for automobiles will be realised.

Mr FAIRCLOUGH (DG XI, CEE)

- The ERGA work was a result of the Stuttgart European Council in 1983. The ERGA work is still valid, which means that a large reduction of all substantial pollution emitters is necessary, given the economic feasibility of proposed measures.
- The Commission's proposals and Council conclusions specifically took account of a large group of concerns such as energy consumption, safety, environment, consumer interests and the integrity of the internal market. The Council decisions and conclusions of March and June 1985 will have an equivalent effect on the European environment, as US standards had in the USA, leaving open the possibility to develop alternative technological solutions.
- Before the end of 1985, the Commission will make proposals for speed limits, diesel particulates and heavy lorries emissions standards.
- Action is already under way to have unleaded petrol available in some Member States.

I. ECONOMIC AND INDUSTRIAL IMPLICATIONS OF THE CLEAN CAR

Press Release
Council of the European Communities
1019th Council Meeting
- Environment -
Luxembourg, 27 and 28 June 1985

AIR POLLUTION BY GASES FROM ENGINES OF MOTOR VEHICLES

The Council, the Commission and the Member States¹, after long and detailed negotiations, reached agreement on the directive on air pollution by gases from engines of motor vehicles. The main elements of this agreement are as follows :

Category of vehicles	Dates of implementation (new models/new cars)	Emission norms (grammes/test)
More than 2 litres	1.10.1988/1989	CO 25; HO+NOx 6.5 NOx 3.5
1.4 - 2 litres	1.10.1991/1993	CO 30; HO+NOx 8
Less than 1.4 litres	A. 1.10.1990/1991 B. The European standard and the date of its implementation will be decided in 1987 and the date of implementation will not be later than 1992/1993.	CO 45; HO+NOx 15 NOx 6

Member States will use their best endeavours to encourage the introduction and general availability on their territories of unleaded petrol as soon as possible.

7803 e/85 (Presse 108) kin/AM/mn

¹ The Danish delegation has placed a reservation; the United Kingdom gave its agreement ad referendum.

The Commission will bring forward appropriate proposals before the end of 1985 concerning emissions from vehicles over 3.5 tonnes, particulate emissions from diesel vehicles, speed limits and the regular testing of vehicles in use.

The Commission undertook to make a proposal as soon as possible in any case before the end of 1985 concerning particulate emissions from diesel vehicles. The Council undertook to use its best endeavours to take a decision within three months. Meanwhile the German government made clear that it will not apply provisions related to diesel particulates in its financial compensation system.

Diesel vehicles over 2000 cc. will be considered as vehicles in the intermediate category.

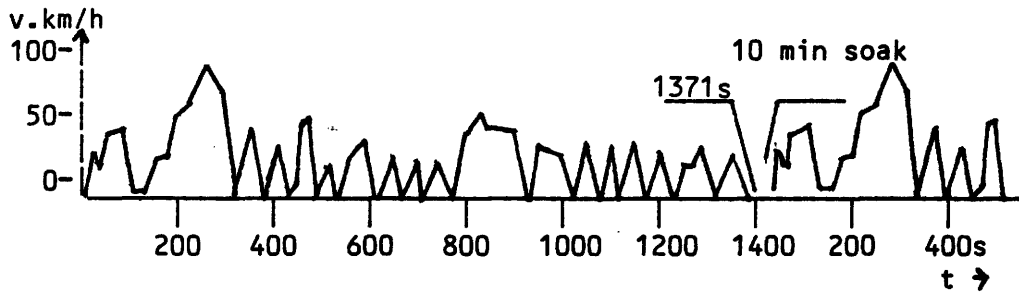
The Council noted a declaration by the Commission in which it undertakes to cooperate with the Greek authorities in examining the particular difficulties for Greece arising from atmospheric pollution, especially in the Athens area. In cases where pollution exceeds acceptable levels, the Commission will, with a view to its early reduction, undertake, in agreement with the Greek government, appropriate measures within its own authority and will, in addition, make appropriate proposals to the Council. Such actions could, in particular, aim at the reduction of emissions from the whole of the vehicle fleet.

COMPARATIVE TEST CYCLES

US-TEST-75

Driving Schedule

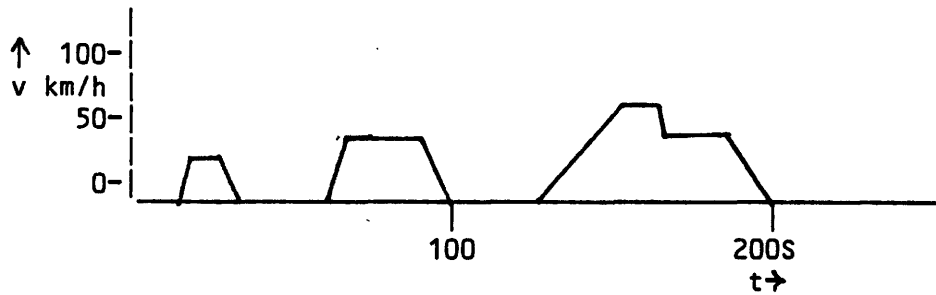
Distance: 17.8 km (11.09 mi)



European-Test (ECE 15/03 // 15/04)

Driving Schedule

Distance 1,013 km/Cycle



EMISSION STANDARDS

USA

Emission Standards 1983 (Model year 1984)	CO : 3.4 g/mi
	HC : 0.41 g/mi
	NOx : 1.0 g/mi

EC

Category of vehicles	Dates of implementation (new models/new cars)	Emission norms (grammes/test)
More than 2 litres	1.10.1988/1989	CO 25; HO+NOx 6.5 NOx 3.5
1.4 - 2 litres	1.10.1991/1993	CO 30; HO+NOx 8
Less than 1.4 litres	A. 1.10.1990/1991	CO 45; HO+NOx 15 NOx 6
	B. The European standard and the date of its implementation will be decided in 1987 and the date of implementation will not be later than 1992/1993.	

BIBLIOGRAPHY

Whilst not intended to be a complete guide to the literature available on the automobile industry, it is hoped that this list will provide a reference for readers who may be interested in further reading on the subject.

PART I - THE CLEAN CAR

Joumard, R. "Effets des polluants automobile sur la santé"
Arcueil IRT, Paris, October 1982

CCMC "Unleaded Petrol and Automotive Emission Standards"
General Secretariat CCMC, Brussels, January 1985

IEA "Fuel Efficiency of passenger Cars"
OECD, Paris, 1984

The Collins Report, Doc. 1-82/83

The Ceravolo Report, Doc. 1-279/83

The Sherlock Report, Doc. 2-1149/84 fin. II

Council Directives - 70/229/EEC (OJ L 76, 6.4.1970)

- 78/611/EEC (OJ L 197, 22.7.1978)

- 83/531/EEC (OJ L 197, 20.7.1983)

COM (84) 226 fin. (modified by COM (84) 532 fin.

and COM (84) 564 fin.)

REMAINING BARRIERS TO A COMMON MARKET

SUMMARY OF THE ANSWERS GIVEN TO THE
QUESTIONNAIRE ON THE AUTOMOBILE INDUSTRY

Q.10 What technical barriers still exist to prevent the achievement of a European type approval for automobiles ?

The EEC Directive 70/156 of 6 February 1970 lays down the technical regulations for achieving a European type approval for passenger cars in Europe. Although more than 40 individual directives have been adopted towards the achievement of a European type approval, there are still some considerable problems :

- i) There are still three directives on safety glass, tyres and weights, (EEC 70/156, 78/135, 78/547, 80/1267) outstanding to complete the European Type approval.
- ii) There is no general agreement as to whether the achievement of a European Type approval will be effective for the following reasons :
 - a) Because of the optional nature of Directive 70/156 some Member States of the EEC might still insist on maintaining their national type approval requirements which may not be in line with the EEC Directive eg. head lamps in France, direction indicator side repeaters, which are mandatory in Denmark, Italy and the UK. Moreover, some Member States attempt to enforce indirectly unique requirements which are legally not mandatory. (Ford, General Motors, UGT, BEUC, CCMC/CLCA). So, as the consumers' organizations (BEUC, Consumers' Association) put it, the barriers are not technical, but political.
 - b) The other problem is the access of vehicles from third countries to the EEC type approval system, which according to the Commission has delayed the appropriate decision until now. For example, the French position on this is that EEC type approval should apply only to vehicles from Community countries. One solution to the above problem would be if the European automobile industry were to accept American technical standards which will lead to a world-wide harmonization of standards (Dr Hahn, President of VW). However, national industries of France and Italy seem to dislike such a proposal (CNV).

Q.11 What problems remain as regards the approval and registration procedures for vehicles imported from other Member States ? What abuses have there been in car supply in the Community ? Has the Commission been too strict or too lenient ?

When the EEC authorities adopted Directive 70/156 there was no compulsory provision made to replace national standards with EEC standards. The reason given then by the Community was that economies of scale at the production level will favour the establishment of the EEC standards.

However, this did not take place. The most important problems of type approval and registration, according to BEUC seem to be found in France and to a lesser extent in the UK. In the UK it still appears that bureaucratic obstacles and supply difficulties are being encountered by some parallel importers.¹ While UK companies specializing in personal imports² seem to be able to operate without too much difficulty (Professor Rhys).

The commonest example causing problems is the following :

- Because of certain technical specifications, an imported car does not meet the regulations of national type approval of the country into which the car is imported. However, it does comply with the national standards of the Member State from which it was exported. BEUC takes the view that the principles of free movement laid down by the Court of Justice in the Cassis de Dijon case should be applied. The Commission in its communication of September 1984 takes a similar view unless the importing country can show that these foreign standards are of a lower safety level. The problem with the above, of course, is who defines the safety standards. However, according to Ford, the Commission has not, until now, taken any of those Member States before the European Court that continue to refuse the registration of imported vehicles on the pure grounds that they do not conform with local regulations.

¹ "Parallel imports" are defined as imports through some channel other than the manufacturer's recognised distribution channel.

² "Personal imports" describe the situation whereby the individual UK consumer buys a car abroad and brings it back as a "personal import".

The Commission in its Communication of 1984 on the entry and registration procedures for imported vehicles kept its results confidential. This is seen by Trade Unions (TGWU) and consumer organizations as a concession to car manufacturers. After all, the optional nature of EC type approval enables the car manufacturers to protect their dominant position in their respective national markets (BEUC).

Furthermore, consumer organizations were hoping that the introduction of

- i) full time availability;
- ii) allowing parallel and personal imports;
- iii) control of differential pricing;

would create a "Common Market". By issuing Regulation 123/85, the Commission conceded, to a large extent, to the European motor industry's arguments that the above three conditions would be damaging to the industry. Professor Rhys called this approach by the Commission as being realistic, as the industry was at the mercy of factors which were beyond its control.

**Q.12 How do you judge the block exemption on selective distribution of motor vehicles ? Is it too limited, go too far, or about right ?
What do you believe will be its costs ?**

EC competition law is based on the principle that any agreement which restricts competition, and hinders inter-state trade is basically forbidden (Article 85(1) Treaty), but may be exempt from this prohibition if certain conditions are met (Article 85(3)). The Commission views most distribution agreements as being liable for prohibition under Article 85(1) but they are able to qualify for an exemption. For various reasons the Commission decided upon a block exemption regulation rather than individual exemptions. Therefore, Regulation No. 123/85 was adopted at the end of 1984, and came into force on 1 July 1985.

Prof. Rhys "The block exemption in allowing personal imports, an "outer limit" to price discrimination, and a degree of full line availability, but at prices which reflect exogenous differences in the Community, appears to be a reasonable compromise in an imperfect world."

Possible economic costs include :

- the maintenance of prices in a particular market at a higher level than they might have been;
- adverse effects on the retail price index and foreign exchange;
- a transfer of domestic wealth to foreign car makers.

CCMC;CLCA - "Vehicle manufacturers hold the view that several of the conditions (on the block exemption) are not fully justified under Article 85(3) and may lead to a weakening of the established distribution systems to the detriment of motorists."

- This particularly concerns parts distribution, the limited exclusion of intermediaries, unilateral rights of dealers, the "availability clause", and provisions on the pricing of cars having to be supplied under this clause.

A final assessment can only be made when the industry has gained more experience of the practical application of the block exemption.

- CLEPA "The block exemption regulation is about right." It would be helpful if it were formulated more clearly.
- Ford "Ford welcomes the principle of a block exemption regulation as a means of preserving its selective distribution system." However, the Commission should not try to use the regulation as a means of reducing price disparities. Manufacturers must have the right to set their own prices for different markets. It is too early for a true assessment of the regulation. There are, however, some costs already in fulfilling the availability condition, and in changing dealer agreements. The real need is for a genuine European common market.
- Mazda "We positively evaluate EEC block exemption on selective distribution."
- SAAB Regulation No. 123/85 is difficult to interpret and confusing. There is a need for further experience before judgement can be made.
- Danish Assoc. of
Car Importers "About right on the whole."
- TGWU "Reasonable compromise."
- AUEW Worried because the regulations may undermine the dealer and aftersales networks, leading to job losses. The regulations do not suit the car market. "We have grave reservations."
- CCMB "This decision is generally seen as a good thing" - for employment (in Belgium) and for the consumer.

CNV "Not far enough."

BEUC

- Too many concessions to the manufacturers.
- The complaints procedure for consumers is too slow. It makes life very difficult for intermediaries acting on behalf of consumers. There is a need to investigate the component market.

The Consumers'
Association

Need for more time to evaluate the regulation. Some parts have been "watered down":

- on parallel importers, who now have to have written authorizations from individual consumers;
- on the price differences allowable before the Commission can take action and
- possible surcharges and supplements that a manufacturer can apply.

There is a need for formal monitoring of the regulation by the Commission.

Q.13 To what extent are :

**(i) high taxation on automobiles in certain Member States, and
(ii) price controls,
distorting the Community automobile market ? What scope is there for
aligning them or at least reducing them ?**

- i) There is no doubt that differences on (a) taxation on purchase or registration of cars, and (b) taxation on the use of cars, are considerable between Member States and that they distort competition in the European automobile industry. For example, in Britain, VAT charged on new cars is at the level of 15% together with Special Car Tax at 10% of the wholesale price, while in France, VAT is charged at 33% and in Italy at either 20 or 38%.

The highest level of taxation on the purchase or registration of cars is in Denmark (200%) and in Greece where sometimes it reaches the 260% mark. As a result, there is great scope for car manufacturers to supply cars to the distributors in these countries at the lowest ex-works price.

- ii) Substantial price and profit controls take place, dominantly in Belgium. This creates a clear hindrance to a cost justified demand for price increases by the car manufacturers. As a result, price developments in Belgium, corrected for exchange rate adjustments, lag some 30 - 40% behind those in Germany, France or Italy. Moreover, Belgian price controls have an effect on prices in the adjoining Netherlands and Luxembourg due to the long standing customs union and absence of hindrances to travel between these countries. Belgium re-exports, to take advantage of the lower pre-tax prices, are a clear threat to the profitability of car manufacturers in Europe, and promote unfair competition for cars in Europe.

As a result of the above facts, all parties who answered this question agree that there should be some action taken by the Commission against Denmark and Belgium. The above are incompatible with the Treaty and in particular with Articles 95 and 101. However, the chances of achieving an alignment on these matters are very poor indeed since this can only

occur if domestic sovereignty in economic policy and economic measures is reduced. The Regulation 123/85 is an important step towards achieving the above objective.

Q.14 Are state aids to national automobile industries within the Community :

- (i) sufficiently transparent;**
- (ii) too high/cause too many distortions ?**

- i) Most parties who answered the question would agree that state aids to national automobile industries are not sufficiently transparent. State aid takes various forms such as regional grants, tacit absorption of losses by the state, various forms of tax relief, loans by state banks, R & D funding, public procurement policies, etc. Lack of transparency also makes it difficult for manufacturers to assess fully competitors' strengths and weaknesses. State aid, particularly with price controls, distorts trade between Member States. Some, unsubsidized car manufacturers, criticize the Commission for turning a blind eye to state aids in the car industry.
- ii) While the industry claims that state aids are too high, the Trade Unions' answer implies the opposite. Since there is no Community regulation concerning the legality of state aids, governments are perfectly justified in attempting to help such an important sector at all costs.

It is obvious from the above that state aids severely distort competition by preventing the clearing process of market forces. But as Professor Rhys argues, in the European motor industry market forces have long been distorted. During the last twenty years many European car firms have, at one time or another, failed the test of the market place and were bought by others and hence they have become a liability to the European taxpayer (eg. Chrysler-Talbot, Citroen, BL, etc.)

REMAINING BARRIERS TO A COMMON MARKET

SYNOPSIS OF THE HEARING ON
THE EUROPEAN AUTOMOBILE INDUSTRY

INTRODUCTIONS, QUESTIONS AND ANSWERS

on Monday, 28 October 1985, 5:00 - 7:00 p.m.

system. Type approval certificates have been used as a barrier to parallel imports, particularly in France and Italy. The European Parliament should attack new trade barriers, which means that national controls have to be transferred to EC level. This implies also a common position on Japanese imports instead of national import quota or national technical requirements. The scope of the Treaty-rules, on the Cassis de Dijon principle, for type approval and imports of used cars is underestimated. There is much common ground, between consumer organizations and car manufacturers, to eliminate technical barriers, but Mr Venables does not agree with CCMC-CLCA that the current type approval system works well and that price controls or tax differences are the cause for price differences. There is an increasing volume of complaints about double taxation of imported used cars in the Community. The BEUC supports the Rogalla Report conclusions on the importation of second-hand goods.

- The BEUC does not know whether consumers are better off with or without the block exemption regulation. Its success depends on careful monitoring of the application and the implementation of a rapid and inexpensive enforcement mechanism in the complaints area. The block exemption was watered down and it is the most generous (for manufacturers) ever to be granted, second only to that proposed for European scheduled airlines.

There are grey areas of interpretation concerning the availability clause and price differences; price differences still exist and personal parallel imports are hindered by delivery stops, excessive price surcharges, delays and refusals to sell.

To achieve a common market in cars by 1992, consumers should be able to buy cars in any EEC country, to import them without excessive tax and border formalities and to get their cars repaired as domestic purchases.

Does the Danish car tax system favour third country imports or distort intra-EEC competition ? Can the Danish government be persuaded to lower taxes ? Are there special conditions, e.g. taxes, on used car imports ?

- Because of the progressive taxes on cars, small and low priced Japanese cars are favoured by the Danish consumers. Each time ex-factory prices are lowered by DKR 1000, the Danish consumers pay DKR 3400 less. If the Danish ex-factory prices were on the same level as in the UK, car prices (including tax) would have been exorbitant. Of course, German consumers

can buy the same models in Denmark bypassing the German distribution network. It's the normal private citizen who makes parallel imports directly or via intermediaries.

- The registration tax on cars in Denmark is about 15% of the total revenue of income and wealth taxes. If the Danish government wanted to harmonize car taxes to the average level of other countries in the EEC, a rise in the VAT rate from 22% to 26% would compensate for the loss in revenue.
- The used-car tax in Denmark is equal to the new-car tax minus 10%. There is not a special tax on spare parts but the Danish distributors have a high margin on spare parts to keep up profits. "Pirate" or non-original spare parts are priced the same as original spare parts. (Mr Egstrand). BEUC commented that spare parts should have been left out of the regulation because it does not believe that the minimal degree of competition introduced by the regulation would really help. "

Will a real common market make cars less or more expensive; will it affect the demand for and the cost of cars ?

There is evidence that car prices are being held down in high price countries such as the UK. One important factor may be the parallel imports. The danger of price harmonization being at a higher level has not occurred. The advantages of a real common market can be seen in the area of domestic appliances where prices and costs could be brought down. In the field of services, where less integration has taken place, the costs of the uncommon market are directly felt by the European consumers.

(Venables)

Is the low cost of Japanese imported cars, which allegedly benefit from the high profits in the US markets, not a form of unfair competition, which will be eradicated eventually to the consumers' cost ?

BEUC has not carried out a study on Japanese imports. There is a study by a Dutch institute for economic affairs on the effect of import restrictions for Japanese cars on prices in a number of European countries.

Will European type approval help consumers with parallel imports ?

The real difficulties with parallel imports are with dealers rather than getting cars across borders. But in a common market it is ridiculous to have double formalities which are not justified on safety grounds. The Patterson Report drew a lot of attention to this. The type approval system in France, Italy and the UK was used to block parallel imports. A European type approval system would depend on an EEC arrangement with the Japanese.

The BEUC requests the Parliament to ask for the publication of the Commission communication of September 1984 on the entry and registration procedures for imported vehicles because it would reveal the state of Community law in this field. (Venables)

Does the distribution setup in Europe go against the interests of the consumers ?

The main reason for price differences of cars in the various national markets is not tax (except in the case of Denmark), but the insulation of markets by manufacturers to protect dealer networks. Thus dealers and manufacturers are able to charge what the market can bear. (Venables)

Mr POPIEUL (FGMM-CFDT)

- A common market for automobiles presupposes a European Industrial Space. European industrial cooperation is necessary for pollution control, achievement of economies of scale and the development of new materials. Mr Popieul mentioned that in order to recoup the investment cost in the field of new materials, a volume of 6 million car sales is required. None of the European producers reach this volume.
- A common market also presupposes a European social space which allows for trade union intervention in the fields of introduction of new technologies and their social consequences, social security, work organization, work time reduction and job sharing, control over industrial policy, coordination on a European level, particularly of research work done.

Regarding the European internal market, nationalism of car producers and national governments has to be stopped. Specific points needed for the internal market :

elimination of technical barriers (safety, environment standards); energy consumption policy; harmonization of registration taxes, road taxes, insurances; rules for price controls; a more or less similar situation among the consumers; a common external policy (establish origin rules before a European type approval).

- A minimum consensus has to be found among car manufacturers, trade unions and political bodies, concerning the future of the European car industry and action by the social partners (especially important in times of restructuring) and external measures.

Mr GLATZ (CLCA)

- Common market issues

It should be acknowledged that despite criticism of the Commission and Council, still a lot of progress has been achieved through Community regulations. If we had not had the optional system, we would have been further away than we are now. But still many obstacles and distortions exist such as :

- . unique technical requirements (e.g. the recently introduced DIM/DIP requirements in the UK) which are imposed nationally.
- . Different introduction dates in technical regulations particularly in the environment field. Therefore, the lead times which have been chosen to avoid distortion in competition, have been eliminated.
- . Price controls in Belgium and Luxembourg, which result in an unfair advantage for Belgian dealers in their re-exports, are a discrimination between importers and a distortion of competition in the Common Market.
- . Excessive taxation, especially in Denmark, Greece, Ireland and the Netherlands. Consumer organizations and manufacturers should fight together to get fair prices, also for those consumers who cannot escape the taxes through border tax-adjustment. The Danish, Dutch, Greeks and Irish have to pay the tax.

- Distribution and pricing policy

- . There is nothing wrong in manufacturers trying to charge a price which the market can bear, if this is not accompanied by anti-competitive behaviour to partition markets among each other. Price differences just show that there is competitive behaviour.
- . Selective distribution through a dealer-network is the most cost effective system; it works for the consumers and it improves safety and service.
- . The purpose of a block-exemption system is to lay down conditions, under which manufacturers and dealers can get agreement from the Commission for distribution, which contain clauses that restrict competition but which bring advantages. The expectations that the block exemption will eliminate all the distortions stemming from state intervention, have been wrong. To withdraw the block exemption, only because there are price differences, is wrong, and therefore the Commission has never included such a clause; to withdraw the block exemption because there is collusion, is a legitimate thing to do and the Commission will use price differences of a certain level as a trigger point to see whether the price differences are caused by anti-competitive, illegal behaviour.

QUESTIONS

Are you, as a French trade union, looking forward to a real common market for cars ? What effects will the removal of French trade barriers have on employment, particularly for foreign workers ? What is your position on subsidies to the French car industry ?

- There is no long-term solution for problems in the French car industry without a real common market. Already 50% of French produced cars are exported and also the market share of foreign cars in France is 50%. The only way to operate is on a European basis.
- The loss of jobs in the French car industry could, to some extent, be compensated by the creation of jobs in the service industries and small and medium sized firms. The situation is difficult; therefore the CFDT demands extra measures in the area of work-time reduction and reorganization. Foreign workers, mostly in the lower-skilled group,

have been retrained (Talbot) and they also benefit, on a voluntary basis, from financial aid for reinsertion in their countries of origin.

- Subsidies have been given to Renault, Peugeot and Talbot for restructuring, but this has also been the case in other European countries. Aid in France has been given to both private and public car enterprises. (Popieul)

How do you estimate the chances of collective bargaining at a European level ? Which are the major issues for the trade unions concerning the European car industry ?

- The trade unions in the car industry have regular contacts at a European level in the Federation of European Metal Workers and the Economic and Social Committee. The trade unions are in favour of :
 - (a) a European social space;
 - (b) a tripartite forum in which the Commission, trade unions and car manufacturers participate;
 - (c) information exchange on measures concerning working time and social security.

The process of bargaining at a European level has to be started, but it will be slow. It is not possible to negotiate everything on a European level since many aspects are country, regional and firm specific.

- Major issues
 - . The nature of work in the car industry will change fundamentally in the coming 10 years.
 - . The introduction of new technologies and their social consequences.
 - . Of total salaries, only 2% is spent at present on professional training. A figure of 8 to 10% would be in the interest of the European car industry and its workers.
 - . The European car industry will not be able to resolve its problems without a consensus with the trade unions concerning restructuring and the resulting job losses.
 - . The trade unions have a vital interest to keep the European car industry competitive and alive (Popieul).

Is the car industry in favour of state aids ?

State aids are distorting competition, but the industry has to face different national, economic policies. Therefore, it is not easy to make a statement for or against state aids. It is the Commission's duty to look into state aids and see whether they are justified under Article 92 of the Treaty (Glatz).

Which kind of cooperation, joint ventures, mergers, do the car makers want ?

It is for companies to decide individually if, when and how they should cooperate. It has to be pointed out that tax difficulties stand in the way of cross-frontier ventures. (Glatz)

Do the European car manufacturers really want a common market which will impair national segmentation ?

Does a real common market improve competitiveness ?

- A real common market would represent advantages for all. For car manufacturers it is important that in creating a common market for cars other arrangements are made with the EFTA countries. When barriers to trade are eliminated, taxes on cars have to be approximated, price controls eliminated and currency fluctuations minimized. The car industry supports Commissioner Cockfield's proposals for the internal market and it hopes that the Commission will support the car industry in the struggle against the Danish tax system on cars.
- A common market would help competitiveness, but it would not in itself bring the European car industry onto the same level as the Japanese industry. (Glatz)

Can there be a real common market in cars with foreign multinationals who are integrated world-wide ? What is your position on national or European local content rules ? Could joint ventures with Japanese firms really be to the advantage of Europe, in the sense that re-exports to the Japanese market would take place ?

- It is not in the interest of the industry and consumers to impose rigid and strict rules of local content on vehicles produced in Europe because there is no reason why integrated producers of US, Japanese or European origin should not buy parts in third-country locations, in exchange for selling to the same or other destinations of the components. This offers an interesting and fruitful division of labour within a group of companies. If, on the other hand, a company establishes an off-shore assembly plant in order to get into the market, thereby taking away sales volume (they source cheaply from abroad) and not helping the industrial basis ("Espace Industriel"), then there is something wrong. The European approach to the problem of local content should be that manufacturers should integrate into European research and production.
- It is true that Japanese producers are not following the international integration strategy, as are, for example, Ford or General Motors, but you cannot deal with this problem purely by means of legal regulations. (Glatz)

How much time does the car industry need to adjust for the trigger mechanism in the block exemption regulation ?

The industry has never argued that the automatic trigger was not justified because it needed time to adjust. The automatic trigger is not justified because it does not have any room under Article 58 of the Treaty. (Glatz)

Why are car prices (ex factory) in the UK so much higher than on the Continent ?

Is this only because of tax differences or price controls ?

In comparing prices one has to adjust for the range of models offered, for specification and the type of discounts practised. (Glatz)

Mr Venables said that a difference in price still exists of around 30%.

Mr Glatz pointed out that one has to compare the prices bilaterally, which can indicate the causes of price differences. For example, the price difference between the UK and Denmark is due to taxation practices in Denmark, between the UK and Belgium due to price controls in Belgium and between the UK and W. Germany due maybe to the exchange rate of the British Pound.

Are you in favour of full line availability ?

Full line availability does not exist; there is just the obligation for the car manufacturers to make available, to any dealer who asks for it, the range of models in the various versions which one sees in the common market. The car industry is not in favour of full-line availability because this imposed condition is going to disturb the system. It is not fair to accuse manufacturers when foreign buyers have difficulties with dealers who often do not speak the language of the buyer and who are often not interested in selling to somebody who is only passing by, without returning for repairs. (Glatz)

ANSWERS FROM THE COMMISSION

Mr PEETERS (DG III, CEE)

Remaining Directives

In the framework of the directive of 1970, 51 points were established. Today 48 directives exist; three directives remain to be approved by the Council on tyres, window glass safety and weights. The issue of a common position on Japanese imports has delayed the appropriate decisions until now. The White Paper states cautiously "it is not an unreasonable aim to eliminate national quotas by 1992". If this is achieved, the Commission can take up simultaneously

- (a) the remaining three directive proposals;
- (b) EEC type approval;
- (c) the optional or total character of directives;
- (d) simplification of administrative formalities.

Danish Taxation

The Commission has decided recently to begin an inquiry procedure to examine whether the level of Danish taxes on cars distorts intra-EEC trade.

Publication Commission Communication of September 1984

The question concerning the entry and registration procedures for imported vehicles has been raised and answered in written questions by Mr Seefeld, MEP.* In the answer, the Commission announced a communication on this subject; the Communication reflects the Commission's viewpoint, which was addressed to the Member States for reaction. The Communication was not published because not all Member States have responded yet. Several aspects of this Communication are being examined in the Court of Justice in a case between a Member State and the Commission.

* Written Questions to the Commission, Nos. 2307/83, 2308/83
(OJ No. C 213/6-7 of 13.8.1984)

BIBLIOGRAPHY

PART II - COMMON MARKET IN CARS

Silva, F., Grillo, M. and Prati, M.

"Il mercato italiano dell'auto nel contesto europeo"

Milano, Agnelli, 1982

CLCA

"La fiscalité spécifique Automobile dans les pays de la CEE"

Bruxelles, CLCA, 1985

The Welsh Report, Doc. 1-192/84

COM Reg. (EEC) No. 123/85 (OJ L 15, 18.1.1985)

"Completing the Internal Market" (COM (OJ) 310 final), White paper from the Commission to the European Council (Milan, 28-29 June 1985)

See Annex Time Table, removal of technical barriers, sectoral proposals, motor vehicles, p. 15

IMPLICATIONS FOR THE STRUCTURE OF THE COMMUNITY AUTOMOBILE
INDUSTRY OF THE INCREASED INTERNATIONALIZATION OF THE SECTOR

SUMMARY OF THE ANSWERS GIVEN TO THE
QUESTIONNAIRE ON THE AUTOMOBILE INDUSTRY

- Q. 15 What international relations exist at present in car manufacture between :**
- (a) Third Countries and Member States**
 - (b) USA and Member States**
 - (c) Member States ?**

Types of International relations in manufacture :

- Foreign direct investment; local production with varying degrees of local content (sourcing components);
- financial holdings;
- licencing agreements;
- cooperation and collaboration.

- a) In terms of Third Countries, Professor Rhys' claims that the motor companies of the Community cut a "sorry picture", having "very little of the characteristics of a multinational". The motor manufacturers and the Trade Unions, however, point to examples of production location outside the Community, and to cooperation agreements with non-Community companies, although these are mostly within Europe, particularly with the Swedish firms, Volvo and Saab.

Recently there have been agreements between the Community and Japanese companies, for example :

- Honda and Austin Rover : development of luxury car;
 - Nissan and Alfa Romeo : joint assembly of Alfa Romeo Arna/Nissan Cherry Europa;
 - Nissan : direct investment with the opening of assembly plant in UK.
- b) There was no contradiction of Professor Rhys' contention that the United States was the dominant force in relations between the US and European motor industries. The American companies (principally Ford and General Motors) are able to operate at optimum scale, planning at a European level, whilst the European manufacturers remain "hide bound by their own nationalism" (Rhys).

The TGWU argues that the US multinationals are able to cross-subsidize their European based affiliates in price wars, thus squeezing the smaller, European manufacturers.

- c) It was generally acknowledged by the motor manufacturers that links between companies from different Member States were increasing. These links were seen to be taking many forms.

The Financial Times survey of the motor industry (11 September 1985) gave the following examples of links between companies within the Community :

- Volkswagen - Renault : joint manufacture in France of gearbox for Polo, Golf, R14 and R5;
- Fiat - Volvo (Netherlands) : joint holders in the Van Doorns Transmissie Company;
- Volkswagen - Daimler - Benz : joint owners of the DAUG electrical research firm.

However, Professor Rhys was joined by the UGT in criticizing the Community manufacturers for their "nationalist" outlook, and he finished by saying : "True Pan-European cooperation and collaboration with the attendant rationalization of facilities and employment is essential if the European motor industry is to prosper and survive." Ford too stated that the European manufacturers seemed to be orientated towards their "domestic base", and claimed that they were perhaps the most "European" of Europe's manufacturers, having manufacturing locations at 22 sites across Europe.

**Q.16 Is Japanese investment in the Community automobile sector an advantage or a threat to the financial and employment position within the industry ?
 What conditions (eg. local content rules) should be imposed ?
 How can technological dependence be avoided ?**

Respondent	Threat/Advantage	Conditions	Avoidance of technological dependence
Prof. Rhys	Threat	Temporary local content rules - 80%	<ul style="list-style-type: none"> - Need for cooperation between European producers - Research, development, power train manufacture, marketing - Some mergers
Prof. Frybourg	No real threat to jobs, but to financial position of companies	No local content rules- because they would increase costs	Technological dependence can be avoided
CCMC/CLCA	"May create serious problems"	Local content agreements	Japan can make a positive contribution to technological progress.
Ford	Yes, - it will add to over capacity - threaten long term R & D - May reduce European industry to mere assembly.	<ul style="list-style-type: none"> - Reduction of Japanese imports - At least 80% local content rules. 	Restructuring of the European industry to restore financial viability. <ul style="list-style-type: none"> - The creation of a genuine Common Market. - Growth orientated economic policies.

CLEPA		- No local content rules - but investment should not simply mean the assembly of Japanese products.	No danger of technological dependence
Porsche	Threat	- No restrictive quotas	- International units and technical standards.
SAAB Scania	"Probably an advantage"	- Local content rules "Probably have to be imposed"	
TGWU	Threat - despite short term employment benefits. In the long run, simply a transfer of employment from European to Japanese firms.	- Local content rules "not ideal" but essential - Japanese production in Europe should replace Japanese imports, not European production.	- Collaboration with Japan should not become technological dependence - A sufficient stake in the supply of high technology components should be insured for indigenous manufacture.

CCMB	No threat. An advantage for employment.	<ul style="list-style-type: none"> - Not just assembly - Need for Japanese investment in other labour intensive activities eg. engine production. 	<ul style="list-style-type: none"> - Close European cooperation - managed and controlled by the Commission.
CNV	Threat		"100% technological dependence"
UGT	Advantage if industrial and not "covertly commercial"	Local content rules 60 - 65%	

Q.17 What will be the effect of new low cost production (assembled cars and/or components) in developing countries such as South Korea and Brazil on the Community automobile industry ?

Three of the respondents stated directly that production in developing countries was a threat to the Community automobile industry :

- Porsche - "Low cost production is threatening jobs in the Community."
CCMB - "These may swamp Member States."
- Mention of the need for the EC to consider stimulating growth in the economies of the third world, to create markets for European producers.
TGWU - "Potentially this could be very damaging."
- Worried by "tied imports" of components by multinational firms, and increased competition for export markets eg. Africa and the Middle-East.

Conversely, three more respondents claimed that production in the third world is not a threat, and could even be an advantage to the Community's industry :

- Prof. Rhys - The issue is not that of low wages, but low costs. Therefore as the motor industry is capital intensive, Europe need not be at a comparative disadvantage.
Prof. Frybourg - Costs are no lower in the developing countries than in Member States.
- "There are no breakthroughs on the horizon for the developing countries for the next ten years."
UGT - "There is no reason why this should be damaging to European industry, it may even be advantageous, in view of Japanese competition."

Five of the remaining replies to this question for the most part simply pointed out that increased production in developing countries would lead to increased competition, and some suggested ways of ensuring this would be fair, for example :

- CLEPA - "There should be no dumping"
- "We should insist that these new exporting countries abolish their own trade barriers."
- CCMC/CLCA - "It is important that South-Korean cars are excluded from the Community's system of generalized tariff preferences."

Other replies from Mazda, SAAB and CNV.

The AUEW said that they were "against transnational corporations playing off one group of employees against another with a view to an overall reduction of living standards".

Q.18 Do car industries outside the EEC use production technologies (eg. automation/robotization) which are more advanced than those now applied by EEC manufacturers ?

There was a general consensus on this question which said that whilst, "on average the Japanese firms will have a superior technology" (Rhys), the difference between European and Japanese manufacturers, in purely technological terms, was not too great. Where the Japanese appear to have an advantage is in the application of the technology :

Prof. Frybourg - "The manufacturing equipment is of the same technological level but the Japanese use it more efficiently."

TGWU - "We do not believe, at the moment, that countries outside the EEC have more advanced technologies, although they have gone further in implementing them on the shop floor."

CCMB - "Where we do lag behind, in our view, is in organizational terms, and in quality technology."

The CCMC/CLCA listed reasons as to why the Japanese have lower production costs :

- a) lower labour costs both in the component and in the assembly industries (lower wages in the component industry and lower employers' contributions to social security and other wage related costs both in the component and assembly industries);
- b) higher rates of capacity utilization due to more working hours per man and year (274 days per year against some 210 days on average in the EEC);
- c) more flexibility within the labour force and a higher sense of responsibility;
- d) lower inventory costs : components are delivered just-in-time by the component suppliers or sub-contractors and there is no risk of an interruption of supplies due to strikes or other disruption.

It was not thought that production technologies in the USA were more advanced than in Europe, although Professors Rhys and Frybourg said that this situation could change because of heavy American investment.

**Q.19 What are the prospects for the international competitiveness of the EEC car industry ?
Is there a danger that it may fall behind ? Is this for reasons of product quantity,
production technology, labour costs, labour productivity, lack of capital ?**

Respondent	Prospects for Competitiveness	Reasons	Other comments
Prof. Rhys	Poor. Unless there is a rationalization of the car industry in Europe - collaboration and cooperation	- Lack of efficient scale - Excess capacity - Uncompetitive labour costs - Production flow disruption	- Introduction of European cartel would lead to long-term inefficiency.
Prof. Frybourg	Uncertain	- "The perfect socio-economic dovetailing of Japanese industry" - Massive American investment	
CCMC/CLCA	Seriously challenged But not bleak	- main problem - high labour costs	Hope for improvement - new technology - more flexible work organization - growth in demand for "higher-class" cars

CLEPA	Danger of falling behind	<ul style="list-style-type: none"> - high labour costs - state imposed environmental requirements 	
Ford	<p>Strong in certain specialist areas. Weak in the major volume sections.</p>	<ul style="list-style-type: none"> - Over capacity caused by slow growth, home market and loss of imports to Japan. - Lack of capital. - Labour costs especially in W. Germany, Netherlands and Belgium. - Labour productivity poor compared to Japan. 	<p>EC and national governments should take action :</p> <ul style="list-style-type: none"> - eliminate distortions of Common Market - Promote growth in economic policies compatible with improving competitiveness - An agreed policy of trade with Japan
Porsche	Europe will remain competitive	- sophisticated technology	- problem - high labour costs
SAAB Scania	<p>Competitiveness will improve with :</p> <ul style="list-style-type: none"> - a reduction of state aid - identical vehicle regulations in Europe - a neutral taxation system, compared to the taxation on other consumer goods 		

TGWU	"There is a very strong possibility that the EEC car industry could fall behind".	<ul style="list-style-type: none"> - US firms have the advantage of a very large domestic market - Japan - high productivity - Possibility of cooperation between Japan and US - Europe - lacks capital 	<ul style="list-style-type: none"> - Need for cooperation and collaboration - To share the benefits of increased productivity with the work force
CCMB	<p>No danger of Belgium falling behind</p> <p>Problems on a European Level</p>	<ul style="list-style-type: none"> - low labour costs - effective working time - high labour productivity - lack of capital - nationalism of manufacturers 	
CNV	Improving	Automation	
UGT	Low competitiveness	<ul style="list-style-type: none"> - too many companies - shortage of capital 	Europe does not lack technical potential

Q.20 To what extent are dumping/unfair commercial practices on the part of third countries negatively affecting the Community automobile industry, and what can be done in this regard ?

Respondent	Effect of Dumping	Other unfair practices	What can be done?
Prof. Rhys	<p>No sign of dumping or unfairness from the Third World - preferential treatment under GATT</p> <p>Eastern Europe masks dumping by unrealistic exchange rates - will become more a threat as the Eastern European countries develop "third generation cars"</p>		<p>However, Europe must help develop and open the markets in the Third World</p> <p>"The European governments must not sacrifice their motor industries to the need to trade with Comecon."</p>
Prof. Frybourg	"It is not a genuine problem"		
CCMC/CLCA	Impossible to prove dumping by Eastern Europe - but cars from Comecon are sold at unrealistically low prices. Eastern Europe has 15%+ of the market in Denmark and Greece.		

Ford	Japan the main culprit - good aid and import controls enabled Japanese motor industry to grow during 1970s Eastern Europe, Korea and Taiwan could become problems.		Pressure for Japan to open up home markets, to allow the Yen to float, and promote competition in Japan.
CLEPA		West German manufacturers concerned by copying of vehicle parts - mainly in Taiwan This results in - loss of markets - damage to prestige - a violation of market and patent rights - a fall in safety standards	A need for tight control, eg. of customs
Porsche	"Dumping practices are disrupting the market more and more		Combat dumping at a political level

<p>TGWU</p>	<p>UK - has problems with import restrictions in Spain, Australia and South Africa, whilst these countries can export to the UK with low duties. With Eastern Europe it is difficult to prove dumping, although there is a heavy imbalance in trade between the UK and Comecon.</p>	<p>Counterfeiting - especially by Taiwan and South Korea - damaging to the motor industry - hazardous for consumers</p>	<p>EEC and national governments need to take stronger action.</p>
<p>CCMB</p>			<p>Need for more data</p>
<p>UGT</p>			<p>Need for EEC rules governing commercial practices.</p>

Q.21 Is the "world car" concept likely to develop, and, if so, what will be its implications for the Community automobile industry

	Likelihood of Development of a "world car"	Reasons	Implications for the Community Industry
Prof. Rhys	A world "basket" of components more likely - already developed by US	World car depends upon : - convergence of consumer preference - alignment of world construction and use - Type approval agreements Flexible production equipment and modular construction may allow similar base vehicle construction with national variations.	If Japan begins "specialist" car manufacture, it could cause problems for the European industry.
Prof. Frybourg	"The "world car" will not become a reality."	Production is becoming more diverse.	
Ford	"If anything the 'world car' looks less likely now than it did several years ago." - But possibility of a world basis exists.	- Technology making manufacture more flexible has caused unit cost for small volume production to fall. - Consumer tastes. - Variety of legislation.	The Japanese may develop world cars, and if so the European competitors would have to cooperate to remain competitive.

Mazda	"The "world car" is likely to develop."	- Integration between firms leading to "the best international distribution of the world management resources and its maximum use."	
Porsche	"There is no prospect of a "world car" in the foreseeable future."	- Different manufacturing regulations and other laws.	
TGWU	- Movement towards a "world car".	- Drive towards concentration and monopoly by the large companies.	- "world car" - a threat to European medium-sized manufacturers - can be faced with new technology allowing diversification. Consumers may not accept "world car".
AUEW	"The world car concept is likely to be developed for instance by Ford and GM, however, we believe it will not become all pervading as was initially predicted."	Flexible production techniques will allow for continued diversification by smaller companies.	- May not have detrimental effects for Europe.
CCMB	The strategy of multinationals and state-owned companies is a "decentralized car".		"We do not regard this as a favourable situation."
UGT	"world car" - "perfectly viable" - not necessarily a single model.	Quantative differences in demand remain.	"The European automobile industry could benefit if the "world car" concept gains ground."

Q.22 Are there too many automobile producers within the Community ? Components manufacturers ? Should the Community do anything to encourage the rationalization of the sector ? Are further mergers necessary ? How do you feel about increased cooperation between European firms and what will be the financial implications, and impacts on production patterns of such cooperative ventures ?

Respondent	Too many Producers	Components Manufacturers	The Community and rationalization of the sector	Mergers	Cooperation between European firms	Implications
Prof. Rhys	Yes	Yes- but becoming rationalised with single sourcing.	The Community should identify target areas for mergers, co-operation and collaboration. Encourage Pan-European firms. Social & regional funds to lubricate the process.	Yes	Yes	-greater efficiency will lead to losses & plant closures, but a number of separate assembly operations can survive.
Prof. Frybourg	Does "not seem to be too many".	Perhaps too many			Cooperation is not incompatible with competition	
CCMC/CLCA			"Structural changes should be left to the initiative of the manufacturers themselves".			

CLEPA		Healthy competition must be maintained	"No Community measures are needed to promote rationalization."			
Ford	Over capacity of 2.3 million units	Over capacity 500,000 units	Need for rationalization; end to discriminatory state aid, and use of car firms as "national champions"	Will continue	Likely in R & D	
Porsche				Do not guarantee economic strength Scope for individual products.		
SAAB Scania	Yes, a few too many.	Too few in some cases.			Benefits for producers.	
TGWU	"Closures and cutbacks are not the answer".The problem is not over capacity but constrained demand.		Need to look for ways of expanding demand by creating jobs and increasing incomes.		"Greater cooperation between European firms could be beneficial."	Rationalization has reduced much of the UK industry to "assembly-only" Fall in production & employment

AUEW			The Community should not attempt to rationalize the sector.		Joint deals will help smaller companies.	
CCMB	"From the standpoint of the trade unions, there are not too many automobile producers."		Any rationalisation must be accompanied by social and economic restructuring. Need to restore purchasing power to increase demand.	- would result in inefficiency	In favour of cooperation.	
CNV	Too many small car producers.					
UGT	Too many big groups of automobile producers.	Not an excessive number.			"All forms of cooperation and "denationalization" should be encouraged."	

Q.23 How will the entry of Spain and Portugal into the Community affect the Community automobile industry, and how do you judge the transitional provisions in this regard ?

	The Effects of Iberian Entry Positive/Negative	Reasons	Transitional Provisions
Prof. Rhys	Mostly negative	<ul style="list-style-type: none"> - Spain increases the already too large capacity of the industry. - Expansion by European firms into Iberia could become a cash drain. 	- during the period when Spain and Portugal have free access into the Community market whilst their home markets are protected - they may become an attractive base for Japanese firms to "launch an assault on the Community car market."
Prof. Frybourg	Entry is a threat		- Need for transitional arrangements.
CLEPA	Positive	Enlargement of the market	
Ford	Little change although there is a danger of Japan using Iberia as an export base to the rest of the EC.	<p>Most major manufacturers already regard Spain and Portugal as part of the European market.</p> <p>Enlargement not likely to generate significant risks or opportunities in terms of total vehicle demand.</p>	The arrangements negotiated appear to strike a reasonable balance.

Porsche	Positive for the Community	<ul style="list-style-type: none"> - Reduction of cost advantages in Spain and Portugal - Reduction of customs barriers 	
TGWU	Positive	<ul style="list-style-type: none"> - Possibility of reciprocity in trade between UK and Iberia 	
CNV	Positive	<ul style="list-style-type: none"> - Market opportunities for Volvo 	
UGT	Positive	<ul style="list-style-type: none"> - Contributes to a genuine European auto market. 	Realistic

Q.24 What are the likely trends as regards investment by Community automobile producers in third countries ? Are these likely to be harmful or beneficial ?

Respondent	Likely Trends	Effect
Prof. Rhys	Direct investment will replace direct exports - will increase with cooperation - Problem of Japanese competition	"Both home and host country can benefit from investment in third countries."
Prof. Frybourg	Investment is unavoidable if the European industry is to penetrate third markets.	- Profits will be lower than with exports.
CLEPA		- Investment only makes sense if it is intended to cover local demand.
Porsche		- Harmful for employment in the Community.
TGWU	Need for investment in third countries as they will restrict imports - if Europe doesn't, Japan will.	
UGT		- Investment will have positive effects - risks for the smaller firms - need for a Community law on the subject.

IMPLICATIONS FOR THE STRUCTURE OF THE COMMUNITY AUTOMOBILE
INDUSTRY OF THE INCREASED INTERNATIONALIZATION OF THE SECTOR

SYNOPSIS OF THE HEARING ON
THE EUROPEAN AUTOMOBILE INDUSTRY

INTRODUCTIONS, QUESTIONS AND ANSWERS

on Tuesday, 29 October 1985, 9:00 a.m. - 1:00 p.m.

Tuesday, 29 October
9:00 a.m. - 1:00 p.m.

III. INTERNATIONAL COMPETITIVENESS OF THE EUROPEAN AUTOMOBILE INDUSTRY

OPENING STATEMENTS

Mr U. AGNELLI (President, Fiat Auto)

There is a danger of the European industry falling behind, becoming reliant on foreign sources of finance and technology.

The European industry has lost competitiveness since the first oil crisis: largely because of the penetration of Japanese manufacturers into traditional markets in Africa, the Middle-East and at home - Japan has 10.3% of the EC market. This penetration corresponds to 300,000 lost jobs and the Japanese market share corresponds to the present over capacity in the European car industry.

Excess productivity has led to internal competition and price wars in Europe, causing a reduction in finance for investment and innovation. There is a need for intervention in the following areas to create a favourable situation in which the European industry can operate :-

1. A containment of Japanese penetration in the European market

Japan does not reciprocate trade with Europe, e.g.

Japanese car exports to Europe	1,050,000
European car exports to Japan	41,000

Japanese direct investment in Europe should have at least 80% local content. The Yen should be realistically valued. There is also a danger of competition from elsewhere, especially from Comecon, South-East Asia and Spain.

2. A rapid unification and integration of the internal market

Harmonization of national laws, economic and fiscal policies, technical and employment legislation.

This would be a precondition for collaboration between firms.

3. The introduction of technical norms that will promote the harmonization of production without penalizing the industry and increasing the costs of production.

Mr B. LUTZ (Chairman and Chief Executive Officer of Ford of Europe)

There are four areas where EC action could improve prospects for the European car industry.

1. By eliminating distortions in the common market

European manufacturers need a large home market - a genuine European common market. At the moment, the Commission fails to take effective action against governments which pursue national policies.

To achieve a common market in cars it will be necessary to :

- harmonize rates of taxation;
- abolish national price controls;
- end state aids to "national champions";
- have fundamental economic cooperation to reduce exchange rate fluctuations;
- bring about technical standardization at a European level, encouraging technical cooperation between firms;
- introduce regulations on an EC basis, rather than a national basis - notably on local content.

2. Agreeing upon a trade policy with Japan

There are different (conflicting) attitudes from Member States towards Japan - some close their markets, others encourage Japanese investment or allow unrestricted access. National governments, and the EC, should take a long term view of inward investment :

- a) - at least 80% local content. Rigorously defined.
 - token assembly plants - add to overcapacity
 - threaten R & D
 - put pressure on local firms.
- b) - Products from Japanese involved ventures outside Europe must have 80% local content to be regarded as non-Japanese;
 - local content must be rigorously defined.

- c) - Protection: Japanese imports should be closely monitored until the Yen is realistically valued;
 - demands placed on European industry must be more in line with the international competitive situation;
 - Europe has not yet completed its structural adjustment.The "infant" industry argument is valid: European car industry is in a rebirth situation.

3. Removing the inhibitors to growth

Need for less restrictive monetary and fiscal policies. Ford welcomes the Commission's proposals :

- greater economic convergence;
- monetary policies consistent with increasing growth and low inflation;
- a pause in the growth of current public expenditure, but investment in economic infrastructure;
- rapid opening up of the internal consumer market.

4. Social policies and competitiveness

Increased competitiveness will lead to prosperity and social progress - excessive social legislation could hinder this.

Ford recommends :

- a) - Costs and benefits of all social legislation must be considered;
 - Social progress should not restrict competitiveness.
- b) - The creation of modern labour markets;
 - Reconciliation of the needs of economic efficiency and social protection.
- c) Cooperation between industry and higher education.
- d) Genuine European legislation. No attempts to force national practices into "supernational straight jackets" e.g. Vredeling Proposal, 5th Directive.

Mr T. SULLIVAN (TGWU)

The Community has yet to achieve a genuine common market. The market is distorted by exchange rate fluctuations : the closures at Ford (UK) in Dagenham were one result of this. Even working together, as they have recently in the face of pressure from the Dollar, the five major European national banks have faced difficulties - normally when working independently or even against each other they cannot prevent exchange rate fluctuations. European, and US multinationals combat this by moving production from one country to another.

Problem of calculating costs. Too much emphasis placed on labour costs - other things must be taken into consideration.

- Lack of social commitment from companies "it's either fewer jobs or no jobs" (Lutz).

- Lack of investment from firms.

- Firms must share some responsibility for unemployment.

There must be links between management and unions at company level and between both sides of industry, and the Commission at European level. Unions are interested in competitiveness. Management and unions should work together. "If the companies start talking to their employees and stop talking at them we might still have a motor industry in 10 years time."

The Vredeling Proposal should be implemented in the European car industry, at least on a trial basis. The Commission and the Parliament have been set an impossible question : "you've got to accept that the free market will produce more unemployment, but you've got to accept that you must not pass social legislation to protect that new unemployed". The people will not tolerate this.

Mr W. SCHMIDT (IG Metall)

1. The reduction of working hours in West Germany has not adversely affected competitiveness - in 1985 exports were at a record level.
2. Japanese success is based, not on low labour costs, but on aggressive, expansionist marketing.
3. IG Metall is in favour of a multifaceted approach to industrial relations. It is cooperation not confrontation which will improve the situation in the car industry.

4. Mergers or inter-company cooperation are not condemned out of hand.
5. Companies are not independent of social responsibility. There must be management/trade union links at a European level. More communication.
6. A fall in jobs is expected over the next 15 years because of slower rates of growth, including productivity. Therefore there is a need for:
 - diversification and alternative jobs;
 - public investment to improve the general economic situation;
 - more private investment from the motor companies;
 - increased training for workers and further reduction of working hours.
7. There is also a need for a structural policy to protect jobs in the long-term. This would benefit companies in terms of competitiveness; wage policies are neutral in the long run.

QUESTIONS

What were the reasons for the attempted merger between Fiat and Ford and why did the attempt fail ?

Reasons for the attempt :

Agnelli - Economies of scale.

- Rationalization of investment planning.
- Creation of a genuine European firm with production based in several European countries.
- With 20-25% of the market, Fiat-Ford would have been a market leader.
- An improvement of European competitiveness.

Lutz - Agreement with Agnelli.

- A saving on fixed, if not on variable, costs.
- Shared investment and shared product development.

Reasons for failure :

Agnelli - Both Fiat and Ford thought the merger was an excellent idea, but the deal fell through on a practical level.

- Differences, notably over controls and manpower.
- Finally decided that management difficulties would outweigh benefits.
- Emphasized that excellent relations continued between the two companies - cooperation.

Lutz - The marriage has been called off, but they are still "seeing each other"; differences in corporate cultures.

Joint development of automatic transmission for small cars and cooperation on other components will continue between Fiat and Ford.

It has been said that, instead of the thirteen major producers currently operating, the motor industry in Europe should be formed into three groups. If this is so, should not these groups be European ?

Agnelli - I have never said that there should be three groups. The situation is constantly changing. If there is a need for mergers, caused by economies of scale, the subsequent groupings should be European. If there are to be fewer companies, it would be difficult to know which would leave the market because the six major producers, (Fiat, VW, Peugeot-Talbot, Renault, Ford and General Motors) all have an approximate market share of 12%. The situation is further complicated by the pressure of state holdings in some firms.

Will a restructuring and a modernization of the industry lead to job losses ? Does the industry have any responsibility for those made unemployed ? Is the "recycling" of workers made redundant a problem for the firm or the state ?

Agnelli - The investment in new technology is causing a reduction in industrial jobs. As the industry is further restructured to the realities of the European market further reductions must be expected. The capacity

of Fiat has fallen from 2 million vehicles to 1.4 million since the late 1970s. This has been a reduction in output to meet the forecast of the European market. Jobs have fallen too, from 270,000 in 1980 to 220,000 and if the situation continues as it has been, this will fall to 200,000 by 1987. Increased competitiveness can rejuvenate the industry. To create this there is a need for new technological investment. It is only by improving competitiveness that the European industry can recapture its overseas markets, notably in Africa, the Middle-East and parts of South-East Asia. Ultimately, improved competitiveness is essential to protect jobs. Fiat does not feel that unemployment is their responsibility, but they would be willing to offer assistance to alleviate its effects.

Lutz - In 1979 Ford of Europe produced 1.4 million vehicles and employed 140,000 people. In 1985 Ford produced 1.35 million vehicles with a workforce of 100,000. The reduction in jobs has mostly been made by offering early retirement and voluntary redundancy. The process is not finished. In the UK it takes 70 man hours to produce one car, in West Germany it takes 35 man hours, but in Japan it takes only 18-20. One Japanese company, with a similar size to Ford in terms of cars produced, has a workforce of only 40,000 people. Even after adjustments for integration levels, Japan has a productivity advantage of approximately 2:1. Europe has a choice, either it protects jobs by protectionist measures against Japan, or it opens itself to Japanese competition which will cause a reduction in jobs, not only in the automobile industry but in every sector of manufacturing. What will happen to those made unemployed is a macro-economic question Mr Lutz felt unable to answer. Unemployment is very sad, but his concern is the survival of the company.

If there is such a need for protection against Japan, will this lead to a fall in European competitiveness, and is there not a danger that Japan will move to capture Europe's export markets ?

Sullivan - "I do not accept that there is a free market position between the European motor industry and the Japanese." Japan protects against imports, Japan can sell into Europe's markets, but Europe cannot sell into Japan's market. The market is distorted by the situation of the Yen, and by investment-costs in Japan. Europe will not reproduce the sort of social structures which allow Japan to maintain such high levels of productivity.

Therefore, Europe has two alternatives, it can have an open market and run the risk of destroying the industry, or allow the industry to regenerate, behind protective barriers. Here the employers and the unions speak with one voice. They are not calling for total protection but measures to allow a "rebirth" of the European industry, similar to the "new-birth" protection employed by Japan. This would give the European industry the opportunity to become competitive. At the moment, the level of protection employed by the European countries is not high, in fact, apart from the voluntary arrangements in the UK and West Germany and the technical barriers used by Italy and France, there is an open market situation. Regarding third markets, it is wrong to make generalizations; thought must be given as to which third markets are being considered, and how they effect European capacity. For example, to sell in Latin America, companies must manufacture locally and therefore it is unlikely that Japan will come to dominate that market; the Far-East on the other hand could be considered as Japan's home market, whilst the natural third market for Europe would be Africa, if sales were not so unstable there.

Schmidt - As a trade unionist he is concerned with international solidarity. Europe should not try to solve its employment problems with increased exports. That would be living on the backs of other countries, and they would eventually take action against Europe. There is a need for bilateral or multilateral settlements. Cooperation, rather than confrontation, will improve world trade for the benefit of everyone.

Do you accept the notion of unfair competition ?

Lutz - Yes, there is unfair competition from Japan. The West, with its concept of fair play has "missed the point of what Japan is all about". The Japanese do not view fairness the same way we do. They have one aim, to improve their situation at the expense of everybody else. There is protection of the Japanese market. "The Japanese are clearly out after domination of everybody elses markets".

Agnelli - The European industry wants "free and fair competition". Japan uses the protectionist measures of an underdeveloped country against Western Europe, even though it is one of the most highly developed industrial nations in the world. As a result of this, Japan exports 1

million cars to Europe while importing merely 40,000. The social differences between Europe and Japan also make it difficult for Europe to compete. In Europe, a balance must be maintained between the need for improved productivity, and the wages and working conditions negotiated between the trade unions and the employers, whereas in Japan the attitude of the workforce towards their jobs is completely different. Finally, the level of education and information can be much higher amongst Japanese car workers, at least on certain levels, for example, on the assembly line at Toyota, 90% of the workers "have come from university".

To what extent is there a need for increased information for the workforce, and increased employee involvement generally within the motor industry ?

Sullivan - There is a need for discussion and exchange of information at a European level. At Ford the trade union can get information at a national company level which proves worthless when it knows nothing of company decisions on a larger scale, for example the workforce was told very little about the proposed merger between Fiat and Ford. There is a wealth of information available from other sources, such as the Commission, and in Great Britain, the Motor Research Unit of the University of East Anglia, which provides some of the best information on the European industry. However, what is needed is the ability to use that information. Thus there is a call for employee involvement at European level.

Schmidt - In West Germany the unions are better provided with information about the companies' plans than in the UK. In what concerns wage policy, information is sufficient. IG Metall also receives information from the Commission. Worker participation exists in West Germany with union representatives sitting on works councils, although in certain matters, things could be improved.

Lutz - No problem with co-determination. No problem with the way things are going in the USA (e.g. the Saturn project involving worker participation). But Ford was worried by the Vredeling Directive, as this proposed co-determination at the wrong level. Co-determination should involve talks between the company in Europe, and selected workers representatives in that geographical location. Vredeling proposed an

extra-territorial level. However, Ford is very much in favour of improving the dialogue between the workforce and the company, it is "a fundamental philosophy" of the firm.

What would be the effect of increased social legislation in Europe ?

Lutz - There is a need to "prioritize" the needs of Europe. At the moment the industry cannot afford further social legislation. There is the need to protect what is left of a viable European motor industry, and it is the wrong time to introduce any legislation which will add to the costs, and reduce reaction speed. It is not a question of turning the clock back, it is simply a fact that shorter working hours without reduced wages will add to Europe's already uncompetitive wage costs vis-à-vis Japan. Europe cannot say that it wants to keep its Western lifestyle and still buy Japanese products because they are cheaper. This would lead to increased out-sourcing and eventual de-industrialization. Europe cannot survive on service industries alone - there is a need to maintain a manufacturing base. In the USA, the trade union - United Automobile Workers - faced with the decline of their industry decided that the time for confrontation was over, and that more could be gained by cooperation with management. This has been a great success, and has enhanced rather than diminished the role of the unions. But at the moment the trade unions must realise that in the European industry's fight for survival, social legislation is peripheral.

Agnelli - In Sweden the trade unions have adopted an official position against the reduction of working hours, because they recognise that this does not automatically lead to the creation of new employment, and that it could have a harmful effect upon competitiveness.

Schmidt - Shorter working hours do not necessarily harm competitiveness, as the West German example shows. A recent inquiry by IG Metall shows that, of hours reduced, only 50% were taken up by new employment. The rest contributed to increased productivity. There is a need for more flexible forms of social organization and different attitudes towards work, but this should not have detrimental social effects.

How can the European Community play a more positive role in the motor industry ?

Is there a need for a common policy in cars ?

Agnelli - Until the national governments give them more power there is perhaps little the Commission or the European Parliament can do. The Parliament should try not to do anything that would make the situation any more difficult for the European manufacturers, and should lobby for harmonization of the market and of economic policies. A common policy, involving planning and rigid controls would not be welcomed; instead the EC should try to provide a backdrop for the re-birth of the European industry, and initiate economic developments which would help to roll back frontiers, for example, ECU investments.

Lutz - A common policy which led to a type of cartelization as has happened in the steel industry would not allow the interplay of market forces and would not be the way to make European industry efficient. The most efficient industry would come about if there were competitive pressures, but within a free and homogeneous common market. Thus the EC institutions should work to knock down the barriers used by national governments, such as type approval in Italy and the UK, Danish taxes, Belgium price controls, and aid to nationalized firms such as ARG and Renault. It needs a supra-national body to do this. "The Parliament and the EEC Commission need to start getting tough with countries rather than with companies."

Sullivan - The European Parliament will be able to act once it receives powers from the national governments. At the moment the some national governments lack the political will to give this power.

Is it not true, that whilst Mr Lutz complains about state subsidies to European firms, and unfair competition from the Japanese, in fact, American firms like Ford, receive aid from the US government, cross-subsidize their European subsidiaries with profits made in the USA, and in effect pursue strategies similar to those used by the Japanese ?

Lutz - The actions of the Japanese and the American car producers in Europe cannot be compared. Ford has \$6 billion of fixed assets in Europe, it employs 100,000 Europeans, it uses almost 100% local content, and is a net exporter from Europe. Ford is fully integrated into Europe, with R and D, technical centres, and fifteen major manufacturing centres. In fact, Ford is more "European" in many ways than the other producers in the EC. There can be no comparison with Japanese manufacturers who source entirely in the Far East, who export from Japan and do not import, and who make no net contribution to the European economy.

As for cross-subsidization, there is no truth in the accusation. Ford of Europe is expected to make its own profits for the corporation. It has never been Ford policy to sacrifice US profitability for the purpose of buying a market share in Europe. There is great pressure to get Ford of Europe profitable.

There is no state aid to American firms. "I can't think of a single government anywhere in the world which does less to help its national automobile industry, and in fact, more to harm its national automotive industry, than the US government." Chrysler at one time received government loan guarantees, but these have all been paid off. Ford and General Motors have never received government aid. By comparison, European national governments have for many years supported loss-making companies, such as Alfa-Romeo, Austin-Rover, and more recently, Renault. Almost 25% of the European motor industry is nationalized, and apart from the partly state owned Volkswagen, it is all loss making. These firms consume resources, and take market shares that could otherwise benefit profitable firms. Austin Rover Group "can be compared to a dead body that is on a life support machine". If it had been allowed to die, jobs would not have been lost they would simply have been taken up by healthier companies. The idea of propping up firms to protect jobs is a "zero sum game" because by supporting some firms you make the others unhealthy.

Sullivan - In Britain the government only nationalizes a firm when it is "dead". Nationalization permits the government to invest in the company and protect it until it can become profitable again. Austin Rover is in a re-birth situation, like the European industry as a whole, and needs state aid to enable it to become a viable company once more. Already, ARG is more productive per man/car than Ford or General Motors in the UK. Perhaps ARG will become another success story like Jaguar which was saved by nationalization to become the "high-flyer" of the British motor industry.

Agnelli - In the long term, healthy, profitable firms are needed to maintain jobs. As to the behaviour of American firms, Mr Lutz has explained the position of Ford. However, Mr Smith of General Motors has spoken about buying shares of the European market. It is hoped that this policy of buying market shares in Europe at a high price will be rethought because it creates a very bad image of American industry in Europe.

Are there alternatives to the present system of distribution in the car industry, for example, mail order, or car "supermarkets" ?

Lutz - Mail order marketing did not work when tried in the United States. The automobile supermarket would not work either. A car is such an important purchase, that the buyer needs individual counselling and a close relationship with the dealer. Today a dealer needs to make such a high investment in electrical and mechanical training, service equipment and spare-parts, that in order to give the public a proper service he must be dedicated to one make.

Agnelli - Agreement with Lutz. A specialist distribution service offers the best service to the client, even if it means increased prices.

COMMISSION STATEMENT

M. Cecchini

The Commission gives priority to the harmonization of the internal market. Therefore it will make even greater efforts to reduce the differences which exist at the moment with the Community market. The national governments are in a rather ambiguous situation, they want the harmonization of the internal market, but have a viewpoint which is too short-term. It is not going to be easy to realise the Commission's objectives, and the Commission cannot do it on its own.

BIBLIOGRAPHY

PART III - COMPETITIVENESS, THE INTERNATIONAL SECTOR

- Baskar, Krish "The Future of the World Motor Industry"
London, Kogar Page, 1980
- Bonafos, G.de., Chanaron, J.J., Mautort, L. de.
"L'industrie automobile"
Paris, Maspero, 1983
- Frybourg, M. "Perspectives de l'industrie automobile - L'effort de
recherche et développement"
Paris, IRT, janv. 1982
- Frybourg, M. et Prud'homme, R.
"L'Avenir d'une centenaire : l'automobile"
Presse Université de Lyon, 1984
- Mosconi, Antonio et Velo, Dario
"Crisi e ristrutturazione del settore automobilistico"
Bologna, Il Mulino, 1982
- OCDE "Long term outlook for the World Automobile Industry"
Paris, OCDE, 1983
- MIT "The future of the Automobile"
London, George Allen and Unwin, 1984
- Financial Times Survey
"The Motor Industry"
11 September 1985

- Time "Car Makers at the Crossroads"
4 November 1985
- Maxy, George "The Multinational Motor Industry"
London, Croom Helm, 1981
- Volpala, Giuseppe, et. al.
"L'industria dell'auto e dei componenti. Integrazione e
internazionalizzazione produttiva"
Milano, Angeli, 1982
- "Financial Times Survey Commercial Vehicles"
29 November 1985
- Hanaeda, Mieko "Der Handelskonflikt zwischen Japan und den EG Staaten"
Köln, Weltforum Verlag, 1982
- Kinnen, Haimo "Die Japanische Herausforderung"
München, VVF, 1982
- The Filippi Report, Doc. 1-997/82
- The Bonaccini Reports, Doc. 1-637/80
Doc. 1-1505/83

Appendix **SUMMARY OF REPLIES FROM THE JAPANESE
AUTOMOBILE MANUFACTURERS ASSOCIATION***

PART I - **ECONOMIC AND INDUSTRIAL
IMPLICATIONS OF THE CLEAN CAR**

Exhaust gases became a serious problem in Japan during the 1960s. The concentration of the population into a relatively small area, and the rapid increase in the number of cars accentuated the situation. Thus, in 1966, Japan became the first country in the world to introduce emission controls for cars with a regulation limiting CO levels. Succeeding legislation dealt with HC and NOx levels. The nationwide introduction of lead-free petrol and the development of engine technology (e.g. catalytic converters) reduced car pollution in Japan. The manufacturers have to strike a balance between emission reduction and vehicle performance; they have a problem because it seems fuel efficiency may be harmed by emission controls. Firms can incur huge R & D costs. JAMA recognise the need to reduce emissions, but any controls must take account of technical, social and economic factors.

PART II - **THE COMMON MARKET IN CARS**

National technical barriers still exist within the EC, running counter to the spirit of eliminating non-tariff barriers. Directive No. 70/156 on European type approval should be fully implemented. The international harmonization of technical standards would be beneficial to manufacturers. EC Member States must take the initiative in achieving international harmonization with other countries in the world, in cooperation with the UN Economic Commission for Europe.

The "block exemption" on selective distribution was "probably timely" although its effects are not yet apparent. JAMA is particularly interested in the following provisions of Directive No. 123/85, vehicle supply obligation, dealer protection, supply of requested models, price differentials.

* This reply arrived too late to be included in the original summary.

The EC must remedy the restrictions on Japanese imports, which exist in Italy, France and Greece.

PART III - THE INTERNATIONAL SECTOR

There has been an increased internationalization of the market since the first oil crisis; the US advancement in Europe, the development of European integration, and the "world car" concept, based on the industrialization of the NIC's are illustrations of this.

Changing consumer needs mean that companies must seek new technology to meet market requirements.

Several bilateral links exist between Japan and the EC, e.g. Honda-BL, Nissan-Alfa Romeo, Nissan's manufacturing plant in the UK, and VW collaboration with Nissan in Japan. This type of two-way internationalism between Europe and Japan is also making progress in the parts industry. Bilateral relations of this sort are of mutual benefit to both parties.

Local content rules are against EC principles of unification - attempts to introduce such rules have been defeated in the USA.

Japan imposes no tariffs on imported cars and allows foreign investment.

JAMA hopes that EC steps to harmonize the common market will be successful, and that the Community ensures that Spain and Portugal, when they join the Community, will not discriminate against Japanese imports or investment.