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The European Motor Vehicle Industry: Situation, Issues at Stake, and Proposals for Action

Communication from the Commission
to the Council, the European Parliament
and the Economic and Social Committee

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A. Introduction

The purpose of this Communication is to apply to the Community motor vehicle industry the concept of industrial policy as defined by the Commission in its Communication of November 1990 "Industrial Policy in an Open and Competitive Environment" and as reflected in the new Article 130 of the Treaty agreed in Maastricht.

The Communication follows that of January 1990 on "A Single Community Motor Vehicle Market" (SEC(89)2118 final), which summarized the Commission's views on the conditions for completing the single market in the motor vehicle sector.

In a rapidly changing competitive environment and with the advent of fundamental changes in product and process technology and in the management and organization of people, the EC car industry is facing severe adjustment problems.

A structured Community-wide approach is called for in support of the adjustment of the car and car component industry for at least two reasons: the high level of intra-Community car trade makes Community coordination necessary to avoid distorting national policy measures; and the Community's responsibility for external trade policy can have an impact on the EC's car industry as a whole.

The Commission has therefore announced that it will apply Community instruments to facilitate the adjustment of the car industry's structures with the aim of supporting its competitiveness and thus making it fit for increased competition in the years ahead. The sheer size of the sector, its regional concentration, implying the dependency of large areas of the EC on its development, and its key role in the Community's technological and industrial development make this task even more important.

This Communication follows a two-pronged approach in that it aims:

- to contribute to the examination of the industrial and technological conditions for the success of the Community's car and car component industry, and

- to explain how the motor vehicle industry can benefit from the range of horizontal measures which exist, or have been proposed, to support the industry in its efforts to become more competitive.

Given that the Community can only intervene through measures subsidiary to the industry's own strategies, the Commission has submitted a list of questions and options to the ACEA (Association des Constructeurs Européens d'Automobiles). The ACEA answered with a position paper on "desirable policy measures in support of the European automobile industry's structural adjustment process." A series of bilateral meetings with representative EC car manufacturers and with CLEPA (Comité de Liaison de la Construction d'Equipement et de Pièces d'Automobiles), with car market researchers and with specialists in the field of process and product technology completed the fact-finding. This Communication owes much to the input received from all these sides, and not least to the work carried out in the European Parliament, reflected in the 1991 Report on the European Car Industry (Tongue Report).

The Communication also draws on the findings of the Massachusetts Institute of Technology study on the future of the car industry, sponsored by the Commission, which was the first comprehensive study on the techniques of "lean" manufacturing and "lean" management with their revolutionary impact on the car industry. It draws equally on the findings of the PRS/Boston Consulting Group study on the car components sector, financed by the Commission. Giving a comprehensive view of the interactions inside the motor vehicle industry as a whole, this last study was particularly useful in better appreciating the importance of the components sector in itself, and, in a wider sense, as a main factor in the competitiveness of the car industry.

B. Development and economic importance of the European motor vehicle and motor vehicle components sector

1. Trends and forecasts

Driven by strong growth in domestic demand between 1982 and 1989, the production of passenger cars and light commercial vehicles in the EC has grown from 10.7 million to 14.3 million units. In the recent past, despite the increase in demand generated by German reunification, production decreased. Estimates are that in 1991 13.7 million cars were produced in the Community. With this figure and with new registrations at about the same level, the EC is both the largest consumer and the largest producer of motor cars in the world, accounting for almost 40% of world production and consumption of cars. Its net car exports, in terms of value, are traditionally of considerable importance for its trade balance although they have fallen significantly in recent years.

The generally positive production trend over the last ten years could partially compensate for the effect on the labour market of substantial productivity growth. However, it is estimated that more than 400 000 jobs were lost in car manufacturing during the 1980s. EC car production in 1991 was achieved with a workforce of approximately 1.2 million people directly employed in car manufacturing.

Concluding from Boston Consulting's analysis, we would estimate jobs in the components sector to amount to 950 000, with hardly any change during the recent past. If employment in materials extraction and the manufacture and processing of materials for direct supply to car manufacturers is also take into account, total direct employment in the EC car manufacturing value chain can be estimated to be well in excess of 2.5 million. It is estimated that around 10% of all EC jobs are either directly or indirectly dependent on the motor vehicle sector.

Given the size of car production facilities, and the fact that suppliers are often grouped around a car manufacturing site, the regional importance of car manufacturing where it is located can hardly be overestimated.

It is generally expected that the growth of the EC passenger car market, which amounted to more than 30% between 1980 and 1990, will continue in the years to come, although at a reduced rate. In the year 2000, the Community will still constitute by far the most important integrated car market in the world. This may form the basis of further expansion in EC passenger car production, although a tendency to shift part of the activity to emerging markets, e.g. Eastern Europe, and to supply at least these markets from a local base is already becoming apparent.

Despite these tendencies towards further internationalization of the EC car industry's production activities, production in the EC is expected to increase by approximately 16% between 1991 and 2000, with 13.7 million units produced by 1991 and approximately 16 million units produced in 2000 (including Japanese transplants' production).

2. Underlying conditions

As is the case with all economic forecasts, production prognoses such as the relatively favourable one given above only hold true if certain conditions are fulfilled, the most important being further progress as regards the competitiveness of the sector, and a continuous effort to develop its home and foreign markets.

In third markets (outside Japan and the Community) Japanese competitors have increased their market share at the expense - also - of European producers, whether as a result of exports or (in North America) through local vehicle assembly.

However, the European motor industry's share of the world market shrank mainly between 1980 and 1987 in a delicate situation internally.

The liberalization of the East European countries and the conversion of their economies into market economies will create opportunities for the European motor vehicle industry.

These opportunities arise primarily in terms of outlets for European products on markets which are lagging behind considerably as regards the level of vehicle ownership, local product quality and the structure of the vehicle fleet. They also arise with regard to production where cooperation with the local industry offers promise of beneficial effects for all concerned.

To make the most of these opportunities the industry needs to make itself as competitive as possible, defined by such features as high productivity, quick adaption to market evolution and trends, educated and motivated workforces, high levels of internal investment and strong competition within the sector.

External competition should serve as a further stimulus to competitiveness in Europe.

It is also for this reason that the European Community has decided to fully liberalize its car market by the turn of the century.

The Commission feels that its efforts will succeed if Europe's industry manages to realize its potential, i.e. its technological advantage in several areas and a broad product range geared to the needs of both European and non-European consumers.

Success in this area requires effective mobilization of all the parties concerned (manufacturers, suppliers, social partners, the Community and the national governments) in order to reduce, or even eliminate, the handicaps of Europe's industry in its attempts to regain a strong position on the world's markets.

The best known handicap is that of productivity. The studies carried out in this connection concentrate on assembly and thus only reflect a fraction of the unit costs of production, which are a key factor in competitiveness.

The latest MIT figures show that in 1989, despite considerable efforts to catch up in the 1980s, non-specialist European car producers needed an average of 35.3 hours in order to assemble a vehicle, compared with 16.8 hours, i.e. less than half that figure, for the Japanese.

This is an overall finding which averages out the performance levels of the various locations; the productivity of the 13 assembly plants in Europe analysed by MIT varies between 22.8 and 55.7 hours per vehicle.

In addition to the need for European motor vehicle assemblers to close the productivity gap, there is a need for European equipment manufacturers to increase their productivity and the quality of their products. Apart from its intrinsic importance within the economy it is now recognized that the equipment sector plays a key role in improving the competitiveness of the entire motor industry. Given the trend among assemblers to call more and more on the technological and production capabilities of equipment manufacturers (out-sourcing) this role will become increasingly crucial.

However, the transformation required goes well beyond a change in production methods to reduce the number of hours needed in order to assemble a car.

In fact the system referred to by the MIT research workers as "lean production" involves a complete change in the way a vehicle is developed, and a matching of production to increasingly fragmented demand.

The European industry is in the process of rethinking its approach to the demand-development-procurement-assembly-distribution process to respond better to the rapid and far-reaching changes in technical, economic, environmental, social and political conditions which can be expected for the 1990s.

Thus owing to processes of social differentiation and related changes in consumption patterns, customized production of technologically sophisticated goods of high quality will become central to the competitiveness of industry on the markets of advanced industrial countries.

In the context of changing societal values and increasing environmental concerns, a reorientation of products and production processes remains a necessity.

In the work sphere, job enrichment and job enlargement as well as broader responsibility and participation are increasingly relevant factors in any commitment to work.

In response to these challenges industry is reorganizing its enterprise sector and is rapidly developing flexible manufacturing. For this to be possible, new forms of cooperation between companies must be established and human resources have to be adequately developed. Labour relations have to evolve to facilitate these changes, which will require more flexibility on all sides.

More emphasis will be placed on product and process research and development in order economically to provide cars which maintain and develop a technological edge over competing products.

The internal reorganization of companies in order to make them more productive and to allow shorter product cycles (Japanese models remain in production for only four years on average, compared with six to ten years for European models) and the flexibilization of production, to respond to ever more differentiated customer demand, in particular through improved coordination and integration between manufacturers, manufacturers/body makers or car and car component manufactures, are the main thrusts of future improvements in competitiveness.

The differing levels of productivity in the Community demonstrate the technical capacity for significantly improving the level of productivity in Europe. However, whilst the financial structure of our companies has improved recently, the enormous overall gap clearly requires an increase in investment by the European industry in order to carry out modernization.

In addition to the investment in equipment which is needed to improve the productivity of the European motor vehicle producers, a considerable effort is needed on research and development, training and retraining:

- Towards the end of the 1980s most of the European producers had already made a major effort to increase investment in equipment, the ratio of capital investment to turnover being not far short of 10% in the case of certain companies in 1989. In 1990 that trend continued and even gained pace.

- R&D spending, which had stabilized at around 3% of turnover for non-specialist producers and at around 6% for specialist top-of-the-range producers, will rise still further under the pressure of increasingly exacting demands and ever more stringent environmental requirements. In 1990 European motor vehicle producers had to spend close on ECU 6 billion on research and development. Equipment manufacturers spent over ECU 4 billion.

- An increase in training costs can be expected in connection with the introduction of more sophisticated production methods. This represents an additional financial burden on companies: the industry itself has estimated that for the industry as a whole, including the components subsector, which will have to make a big effort in this area, the extra annual cost of increased training may exceed ECU 700 million.

These costs only cover training for the workforce remaining within the industry, at all levels, including management. In the past the industry has had to bear considerable costs on restructuring its workforce and on external retraining.

To focus exclusively on improving crude figures for technical productivity inside given companies would be insufficient in this situation, although substantial efforts are necessary in this field as well.

The future of the European motor vehicle industry is to be seen as one of substantial structural change, including a reorganization of links with upstream and downstream industries and the regrouping of companies. Although public authorities cannot and should not actively intervene in these processes, their policies should be geared towards accommodating these fundamental changes, also by providing a business environment competitive with the one in which competitors are operating.

C. A framework for improved competitiveness in the motor vehicle industry

In its Communication of 16 November 1990 the Commission underlined the strategic importance of completing the internal market, which will provide the main catalysts for structural adjustment.

As in the other decisive sectors of the economy, the completion of the internal market in 1993 constitutes the best possible industrial policy for placing the motor vehicle industry in a position to meet the challenge of international competition.

In this particular sector, the catalysts are technical, financial, commercial and social. Impetus is needed in these various areas in order that the sector can benefit from the implementation of the existing or proposed general measures to help industry in its efforts to make itself more competitive.

One type of action chiefly involves the harmonization or approximation of the laws of the Member States relating to technical standards or taxation.

Another type of action involves, more particularly, the creation of a competitive environment in which businesses can choose to restructure or to enter into new forms of cooperation, either at the production stage or on upstream or downstream activities. Developments such as these are a useful way of achieving greater rationalization or correcting unsuitable commercial structures, provided that they do not lead to situations which run counter to competition policy.

The creation of this environment calls for consistency between the incentives which are attached to investment, business regrouping, research and development and the arrangement of commercial structures; they must respect the principles and rules applicable in these areas.

A third type of action concerns the promotion of human resources, as referred to by the Treaty on European Union, particularly on the basis of the reference framework set out in Article 123 of the Treaty.

1. The single market: a factor in competitiveness

Restructuring of the car industry, a process already under way in anticipation of 1993, and the resultant economies of scale will have far-reaching positive effects on the EC industry's competitiveness. The contribution of the single market process in increasing the competitiveness of the sector is thus evident and substantial. It is also widely recognized.

1.1 The internal market and the harmonization of technical and environmental rules

The Communication of 19 January 1990 first of all touched upon the matter of the harmonization of technical rules, especially those concerning the environment.

a) In general terms technical harmonization is a prerequisite for the practical completion of the internal market, whether one is referring to the "Europeanization" (which does not prevent differentiation) of production, which is over-geared towards national markets, or to the effective movement of products without difficulty at frontiers.

Following the adoption by the Council on 31 March 1992 of the last three separate directives necessary for the operation of EEC type-approval, the harmonization of technical requirements for passenger cars has now been completed. From 1 January 1993 manufacturers need only take into account a single set of rules to market their products (cars as a whole, or their parts) throughout the Community.

A subsequent step in harmonization involves the transition from the present optional system to a total (mandatory) system.

b) In connection with the type-approval procedure, the Commission is also aiming at the general application of very stringent but realistic environmental standards. This promotes the incorporation of environmental constraints by the industry as an essential part of the competitiveness of motor vehicle production and the social acceptability of the products in question.

From this standpoint, even where they require an effort in managing new technologies, stringent standards have a beneficial effect in industrial terms, particularly if they are applied uniformly throughout the Community, thus enabling economies of scale to be maximized and research and technological development to be managed better.

In the process of preparing and implementing environmental standards, the Community must study the equilibrium between two factors : a dynamism capable of promoting on the one hand technical excellence (with the advantage in certain export markets which follow from that), and on the other hand the guarantee for industry of an approach which is effective and within reach from an economic point of view, and which is based on recognized technical data with sufficient advance notice for the adaptation of products or procedures.

The Commission has introduced and will continue to introduce systematically in its environmental directives a second stage, making it possible to aim at the highest environmental standards. In this context, from now until the end of the year the Commission intends to make proposals relating to the limit values for emissions from 1996 and also the objectives to aim at for the year 2000. On this subject, a discussion between industry, the scientific world, the environmental organizations and the public authorities is planned this year and should allow an exchange of views and lead eventually to the first common positions.

Moreover, the framework for tax incentives which may be granted by the Member States on the basis of future European standards maintains a measure of flexibility for them and for the industry while removing discrimination and speeding up the introduction of the most advanced technologies.

The Commission's responsibility for the operation of the internal market means that it pays special attention to the correct implementation of the standards and to the effects of tax incentives.

c) The motor vehicle sector also needs to adapt to retain its social acceptability. It should be noted here that the Community has undertaken to stabilize total emissions of CO_2 for the year 2000 to the level of 1990. The Commission will present supplementary propositions with a view to ensuring an equitable contribution from the motor vehicle industry towards the objective of overall stabilization, based on the environmental directives mentioned in the previous point. Taking account of the foreseable increase of the vehicle park in the years to come, the undertaking by the European motor vehicle industry to reduce CO_2 emissions from each manufacturer's range of passenger cars by 10 % (weighted according to the sales figures) by the year 2005(1) constitutes without doubt a useful step in the right direction. However, this does not seem sufficient, and will have to be accomplished by additional measures to improve on a technical level and to influence driver behaviour.

However, in the analysis of the future evolution of the vehicle market, it will be necessary to take account of particularly acute environmental situations, notably in urban traffic. This problem has been developed in depth in the Transport and Environment Green Paper(2) which in particular analyses the major contraints and suggests the best ways to reduce environmental impact.

1.2 Approximation of indirect taxation

The various indirect tax levels and arrangements affect both the size and structure of markets.

Differences in taxation can produce major differences in the price, inclusive of tax, of motor vehicles within the Community.(3)

With the internal market in prospect the Commission has proposed that VAT rates be brought closer together. The ECOFIN Council agreed on 24 June 1991 that from 1 January 1993 a minimum rate of 15% would apply to motor vehicles and that the increased rates applicable in certain Member States would be abolished.

This will result in a substantial alignment of the rates of VAT on cars in the Community between now and 1st January 1993. During the last two years, these rates have already been reduced in the countries with the highest rates and have been raised in the countries with the lowest rates.

In addition, the Commission notes that considerable differences exist among the Member States concerning other taxes applicable to vehicles. The Commission is examining these differences for any possible impact on the smooth running of the Internal Market.

1.3 The contribution of competition policy

A large number of general measures taken under competition law are already benefiting the motor vehicle industry (see annex).

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(1) CO_2 emissions resulting from the fuel burned by road vehicles now make up 15-20% of total CO_2 emissions, two-thirds being from passenger cars.

(2) COM(92) 46 final of 20 February 1992.

(3) In relation to prices exclusive of tax, indirect taxation varies on average by a ratio of 1:15 between Luxembourg and Denmark, viz. between 15% (VAT) in Luxembourg and 217% (VAT + registration tax) for a vehicle costing DKR 60 000 before tax in Denmark.

Taken as a whole, these measures provide a consistent framework for initiatives to provide funding or management instruments to promote business restructuring, research and development with a view to the commercial application of results and adjustment of trade circuits in relation to the size of a single market encompassing the entire European Economic Area.

a) Business cooperation

The Commission's approach towards cooperation in the motor vehicle sector is continuing to take account of certain specific aspects of the sector. The motor vehicle market has become a world market. Thus the risk of dominant positions emerging has been considerably reduced in a Community that has been traditionally open to trade and which, in the motor vehicle field, is in the process of opening up yet further as a result of the EC-Japan agreement.

Analyses show that closer cooperation between vehicle makers and equipment manufacturers may generate significant spin-offs and hence considerable savings for the industry as a whole as a result of a wider dissemination of the technologies developed in this way.

Moreover, cooperation between equipment manufacturers - which are often SMEs of a size which prevents them from taking part in research and using efficient production methods - may prove desirable.

Likewise, where new products, or products catering for a narrow market niche are to be developed, cooperation between assemblers or between assemblers and bodywork manufacturers may allow the development costs, which are very high for the small size of the market segment, to be shared. Offering a wide range of models is an essential part of the competitiveness of our manufacturers and may even help to increase competition.

Cooperation of this type, carried out within the framework of the rules referred to in the Annex, can be viewed positively, even at the assembly stage, if this widens the choice.

b) A Framework for Public Investment Aid

The Community Framework on State aids to the motor vehicle industry was introduced in 1989 in recognition of the sheer scale of the industry, and its impact on the Community economy and, in particular, trade between Member States. Past experience had shown Member States' strong propensity for awarding generous State aids to their home producers with a view to attracting what was perceived as strategically important investments, or for continuing to subsidize loss-making producers. The long-term development and competitiveness of the industry, or the impact of individual aid measures on the Community industry seldom featured as relevant criteria. The result was often a competitive up-bidding of aid offers between Member States which would be ultimately self-defeating.

The two basic principles underlying the Framework are that aid awarded, whatever its objective, should always be in proportion to the purpose it seeks to achieve, and secondly, that the aid awarded must always be compatible with the Community sectoral interest. For example, the Commission fully recognizes the valuable contribution to regional development which can be made by the implantation of new motor vehicle

and component production facilities or the expansion of such existing activities in disadvantaged areas. However, the Commission, in each case assesses the regional development benefits against possible adverse effects on the sector as a whole.

This particular need to take account of the Community interest was highlighted again when the Framework was renewed from 1991.

The Framework on State aids stated, "Over-reliance on State aid to solve problems of industrial adjustment vis-à-vis third country producers undermines the competitiveness of the Community car manufacturing by hindering the healthy influence of market forces."

These principles, and the criteria which the Commission follows in applying them, are implemented and explained in individual cases. In addition, the Framework serves as a valuable reference when intervening on aid measures proposed by countries with whom the Community has entered into Free Trade Agreements.

Before the end of 1992 the Commission will review the question of the Framework, and will decide whether to renew or to terminate it.

2. Research and development policy

a) One of the principal ways of making the European motor vehicle industry more competitive is through research and technological development.

In its Communications "From the Single Act to Maastricht and beyond: the means to match our ambitions" and "Research after Maastricht: an assessment, a stragey" the Commission emphasizes the importance of research and technological development in making the Community's industry more competitive and announces the need to increase Community funding for R&TD.

These recent Communications show that the Community needs to reorient its R&TD policy with a view to making European industry more competitive. The analysis contained in these documents applies equally to research and technological development in the motor vehicle industry.

European research is failing to produce enough international competitive advantages. The European motor vehicle industry's R&TD expenditure (in 1990: ECU 6 billion by vehicle makers and ECU 4 billion by equipment producers) is comparable to expenditure in Japan and the United States. Thus the main problem affecting European businesses is not the level of R&TD expenditure, but rather a lack of ability to translate R&TD activities into innovative products and/or processes, and these into shares of the market.

In the process of rapid and continuous innovation, it is necessary to move rapidly from technological breakthrough to the serial production of quality products at competitive prices.

Business dynamism is the crucial factor determining the success or failure of innovation policy.

b) In a bid to provide a more effective response to the challenge of international competitiveness, the Commission has proposed a new approach in its R&TD policy, better geared towards business needs.

The reorientation of the Community's R&TD policy will blend continuity with novelty.

Conventional types of programmes will continue, but they will be critically revised and adapted to take account of an industrial environment in the throes of change. The current industry-oriented research programmes, characterized by a "technology push" approach, will take greater account of market expectations and will be focused on a limited number of topics corresponding to clearly identified industrial objectives.

The new feature will be technological priority projects (TP projects) geared towards developing key technologies and achieving a better return on R&TD investment in terms of industrial competitiveness.

Two complementary routes need to be followed in determining technological priority: from R&TD to the market and from the market to R&TD.

From upstream to downstream Community intervention must make it possible to ensure the availability and mastery of a set of generic technologies, access to which is essential for the competitiveness of European producers. From downstream to upstream the task is to identify industrial projects emanating from businesses and based on secured or emerging competitive advantages.

TP projects will be selected in accordance with a "bottom-up" procedure. Proposals from industry must first of all be consistent with the topics of the specific programmes. It is then the Commission's job to assess and to discuss with the relevant bodies the degree of priority that the proposed initiatives have in the light of the priorities set out in the framework programme, as well as the breadth and relevance of the project's implications. Proposals must address technological problems corresponding to industrial priorities; especially problems whose solution will make the system more competitive overall. Proposals will be selected on the basis of close dialogue between the Commission and the consultative Committees.

The success of the TP projects will rest on increased pre-competitive cooperation between businesses. Taking account of previous experience, a definition for the precompetitive level is needed. The pre-competitive stage encompasses all those R&TD activities which businesses can carry out together before developing and marketing their own individual products. These activities relate to topics which, by their very nature, size or cost, are better dealt with by groups of businesses than by individual ones. The Community has an important catalytic role here. Encouragement of this type is perfectly compatible with the competition rules. In its 1985 Regulation on R&TD cooperation agreements the Commission takes a positive view not only of R&TD cooperation, but also, under the conditions laid down in the Regulation, of the joint exploitation of research findings.

The importance of increased cooperation to make the motor vehicle industry more competitive is shown by the Japanese experience. A far greater proportion of R&TD activity is carried out jointly by businesses in Japan than in the United States or in Europe. This is typically the case in the motor vehicle industry. In Europe, in a key technologies sector such as electronics for the car industry, there is virtually no cooperation between different companies. In Japan, on the other hand, the big companies take advantage of the complex structures of the industrial system in this area to launch R&TD initiatives bringing together the manufacturers and users of integrated circuits.

c) The motor vehicle industry will benefit from the conventional R&TD activities and from the new technological priority activities, both of which must be decided on in coordination with Eureka.

Use of multisectoral technologies which may also meet the needs of the motor vehicle industry could in the medium and long term help in the production of a clean vehicle, the improvement and reduction of production times, the achievement of increased active and passive safety in means of transport and the improvement of traffic management.

TP projects will bring major benefits to the motor vehicle industry, by three main means:

1) The availability of generic technologies, on which TP projects are concentrated, is vital to the motor vehicle industry if it is to maintain and develop its competitive advantages. The car industry is one of the industrial sectors with most to gain from generic technologies. The technologies which ought to be favoured relate, for instance, to new and improved materials, recycling, telematics for advanced transport, automation and robotics.

   TP projects could support the development of high-risk technologies, where research expenditure is highest. It is at this stage that businesses fail to take proper advantage of the advantages which they create for other businesses and for consumers. In cases such as these, increased R&TD cooperation between producers together with Community backing for the relevant research may be decisive. A suitable example in the car industry is the new generation of batteries, which will be vital to the development of the electric car.

   TP projects could also give businesses better access to specific technologies which meet emerging societal needs. In the motor vehicle sector this means environment-oriented technologies (e.g. advanced internal combustion, emission-reduction devices) and technologies for the improvement of road safety.

2) TP projects will encourage increased cooperation between component manufacturers, equipment manufacturers and vehicle producers. This cooperation will make it possible to develop those aspects of generic technologies which are relevant to the motor vehicle industry.

   The need for such cooperation can be well illustrated by taking the example of electronic components. By strengthening the links between vehicle producers, equipment manufacturers, the producers of primary components and manufacturers of circuits it is possible to define the configuration and characteristics of electronic components for motor vehicles. Only if the four players concerned act together and take account of users' needs will electronic components be developed which achieve the set aims and offer optimal performance.

3) TP projects will also encourage the development and mastery of new production methods (just-in-time, stockless production, simultaneous engineering), without which the motor vehicle industry will be unable to compete on the world market. World market requirements include, for instance, abandoning the Ford model of production, characterized by the mass production of standardized products, to flexible models combining economies of scale and range, where quality research and differentiation of goods lead to continuous product renewal.

R&TD cannot guide industrial strategy and organization, but will play a key role in enabling industry to master these new production methodologies.

3. Training and retraining

a) In its Communication COM(92)2000 "From the Single Act to Maastricht and beyond: the means to match our ambitions", the Commission stated that human capital is now one of the decisive factors in competitiveness.

Indeed, the revolutionary "lean production" methods, which were analysed in the MIT study, require a personnel structure and skills which differ substantially from those needed in the mass production system introduced into car manufacturing at the beginning of the twentieth century.

A transition to leaner production and management methods is considered necessary by the industry given that growth in productivity through further automation can only be limited. This transition requires workers and employees to possess more interpersonal skills, a better ability to master change, broader training to allow multifunctional assignments and a better knowledge of problem-solving techniques than is currently available to the staff of the car and car component industry. Substantially increased training is needed in order to develop these skills.

On the other hand, car and component manufacturers fear that in order to stay competitive in a market where growth is substantially less than in the past and which is under pressure from strong external competition forcing further marked increases in productivity, they would have to lay off labour. Manufacturers have also made it clear to the Commission that the relatively high average age of the labour force (45 years in traditional European plants as compared to 28 years in Japanese transplants in the EEC, and between 30 and 40 years in Japan) would be an important impediment to the necessary restructuring and adaptation of working methods. Some of our interlocutors mentioned the further impediment of general deficiencies in basic education and the illiteracy of segments of the workforce.

b) The new Article 123 of the Treaty introduces very wide terms of reference for human resources policy, including the possibility of using the Social Fund to make it easier for workers to adapt to industrial changes and to changes in production systems, in particular through vocational training and retraining. The Commission therefore envisages a redefinition of Objectives 3 and 4 of the Structural Funds. In the future, in the context of these objectives, a major effort will be devoted throughout the Community to vocational training and retraining in anticipation of industrial and technological changes. This will of course necessitate a forward study of such changes and their impact on employment.

This redefinition is wider in scope than the old Objectives 3 and 4 and would permit action of the kind desired by the motor industry even outside the regions which have priority in the context of Community regional policy.

To increase employment, direction should be towards staff development, a key component of the new industrial context. Such action would also help to boost competitiveness.

It will also help to prevent serious adjustment problems from arising in future and to solve existing problems arising in particular from the implementation of Community policies.

The Commission has in mind a general approach which can be applied to industry as a whole without drawing any distinction between the sector, location or size of the company involved.

This horizontal approach precludes specific Community assistance for training and retraining limited to the motor vehicle sector. However, in view of the changes taking place, the companies within that industry ought to be in a position to benefit from action by the Community intended to:

- **anticipate the effects on employment caused by these changes and the resulting adaptation problems**

- **make changes economically efficient and socially acceptable**

- **help in retraining and redeployment**

For the European Social Fund to be able to fulfil its functions of preventing the effects of changes on employment, of adapting to new ways of production or of converting to new skills, clear rules of intervention must be defined. Its actions will make the object of programmes prepared in cooperation with the Member States, the companies concerned and the professional training centres. They will be developed at the workplace (on the job training) or next to education and training establishments for general culture (knowledge) and craft-apprenticeship courses (skill).

Without prejudicing the decisions to be taken within the framework of document COM(92)2000, the actions may concern the personnel that will leave firms in phase of restructuring but equally personnel in firms where the effects on employment due to important industrial changes exist or may be foreseen, in respect of competition rules.

These actions can cover the identification of qualifications and both initial and continuous professional training.

Actions for continuous training aim notably at allowing individual adaption to better integrate the results of R&D into the industrial production process, to contribute to the development of abilities in tandem with developing job contents, to improve the abilities of personnel thus facilitating their transition to other jobs, and to assure the transfer of technology and expertise from the industry to SMEs.

In implementing a qualification strategy to meet the challenges of competition, the Community can play the role of catalyst in defining, together with manufacturers and other interested parties, the extent of the adjustment to be made in order to obtain the highest quality standards, the types of training to be promoted, the job profiles, the contents of which are to be redefined, and the rules applying to jointly financed operations.

In this context, Community action may enhance the significant efforts already made by the motor vehicle industry wherever a joint effort is feasible, and in particular: the involvement of industry in a joint analysis of qualification needs, the setting up of inter-company partnerships for training and the development of new forms of cooperation with the bodies and institutions responsible for the provision of training (and in particular initial training).

If those conditions were met, pilot projects could be launched pending the realization of the possibilities afforded by the new Article 123. They could aim at anticipating qualification needs, redefining job profiles, developing joint projects for continuous training and advanced training in new technologies and the development of new approaches to learning and working.

The Commission is examining ways of improving the vocational training programmes (FORCE, COMETT, EUROTECNET, PETRA) and increasing their catalytic effect on policies and activities at national level.

4. Activities upstream and downstream of motor vehicle assembly: two factors in overall competitiveness

4.1 Equipment manufacturers and materials suppliers

Owing to its quantitative importance and also to its extremely diversified structure, the motor industry supply sector is an important asset to the European industry.

As far as the Commission is concerned the increase in the proportion of value added in motor vehicle production stemming from the independent equipment manufacturing subsector is a step towards improving competitiveness in terms of specialization, flexibility and economies of scale.

Apart from analysing the economic importance of the sector (950 000 jobs, 3 250 companies, 21% of the value added to European motor vehicle production), the PRS/Boston Consulting Group study referred to above shows clearly that despite the existence of leading companies and advanced technologies the European industry suffers from major competitive handicaps when compared with the Japanese industry in particular. The study concludes:

> "The EC automotive components industry has relatively low productivity, quality and operating efficiency and is not improving at high enough rates to match Japanese industry performance. The gap is significant and needs to be closed. The speed of product development is a key competitive variable and Europe lags significantly behind Japan.
>
> In order to close the competitive gap, in addition to company-specific programmes effectively to adopt modern, flexible manufacturing and new product development processes, there is a need for structural change towards fewer suppliers with enhanced systems capability, and changes in the OEM-supplier relationship."

The authors consider radical changes to be necessary. This view is shared by both car and car component manufacturers. These changes, at company level, but which would also extend to inter-company relations, must be carried out by the interested parties. Community and national policies should assure an environment which will allow their implementation.

The Commission welcomes the founding, in 1991, of a permanent CLEPA secretariat in Brussels, which is cooperating with the ACEA in different fields.

Aware of the fact that the automobile sector as a whole can only flourish with a sound supplier base, the Commission will monitor the development of this subsector with particular attention. It invites component manufacturers actively to participate in its R&D programmes and in its programmes in the field of vocational training. It also urges car and car component manufacturers to submit joint projects in both areas, which might thus become a nucleus for closer cooperation in general. It would point out that the regulations referred to in the annexe constitute the legal framework for this cooperation.

4.2 Motor vehicle distribution

The motor vehicle industry has since the earliest stages of its expansion based itself on a structured distribution network, whose task has been to establish and maintain trusting relationship between manufacturers and customers.

The arrangements which the Community introduced in regulation 123/85 are based on this situation. In an exception to the general competition rules, they allow the manufacturer to make use of an exclusive and selective distribution system for the sale of new vehicles and spare parts.

These arrangements were based, in the light of the existing situation, on the need for a balance between the interests of producers and distributors and those of consumers; The regulation expires in June 1995.

The practical functioning of the system of selective distribution has been criticised from various quarters :

i) Constructors and distributors have been concerned that parallel importers have been operating as "resellers" rather than as legitimate intermediaries authorised by Regulation 123/85. For their part, intermediaries have been concerned that they were being obstructed in their operations.

   Accordingly, the Commission felt that, after six years of operation, it was time to clarify the role which the regulation confers upon car intermediaries in order to remove any confusion between their activities on behalf of final consumers and the activities which could be carried out unlawfully under this umbrella by agents in fact acting as resellers. This clarification was issued in December 1991.(1)

ii) There have been complaints, notably a complaint by the European Consumers Organisation (BEUC) in 1990 that price differentials for cars between different Member States have exceeded the levels specified in regulation 123/85.

To respond to this concern, the Commission commissioned a study with the aim of producing an objective comparison of prices of specific models in the Member States.

There appear to be considerable price differences in respect of certain models on certain national markets.

It is hard to tell at the moment to what extent the differences which emerged are due to imperfections persisting in the internal market (quotas,

(1) O.J. C 329 of 18.12.91.

customs duties, etc.), objective factors (distance of markets from production factories), faulty analysis or that, in its operation, the selective distribution system has not given sufficient scope for dealers or arbitragers to play an active role in homogenizing the market.

If the selective distribution system were employed to allow major price differences between the various national markets it would create the risk of a sizeable parallel market emerging. This could make it considerably more difficult to implement the EC-Japan agreement. At the same time, the Commission considers that the implementation of the EC-Japan agreement calls for a system over the transitional period to ensure that the objectives of the arrangement are not endangered by large-scale importations of vehicles built in Japan. Provided that it works in a satisfactory and efficient way, selective distribution would help in the management of the transitional period.

Accordingly, in order to increase public confidence that the system of selective distribution is not a cause of fragmentation of the Single market and without taking any position on the merits or demerits of the system in other respects, the Commission calls upon all interested parties to do all they can to demonstrate that the "safety valves" built into Regulation 123/85 (dealer to dealer sales across national frontiers; consumer purchases and operations by intermediaries across national frontiers) are fully operational in practice.

5. Improving the Community industry's access to third markets

When examining the external aspects of motor vehicle policy in December 1989 and then in April 1991 the Commission analysed the Community motor vehicle industry's ability to stay highly competitive in certain third markets.(1)

Moreover, the increasing sophistication of motor vehicles means that R&D spending takes up an increasing proportion of the investment needed to produce new models. The outcome is that the ability to sell more diversified models not only at Community but also at world market level gives a competitive advantage to worldwide manufacturers who are able to maintain such a broad sales base.

Finally, the maturity of the main motor vehicle markets in the industrialized countries means that those markets are exposed to the risk of marked cyclical variations. This makes increased geographical diversification of sales even more important for our industry.

For the above three reasons, the growing internationalization of the Community motor vehicle industry is a key factor in its competitiveness.

(1) See SEC(89)2275, "The future of the motor industry" (sectoral analysis), Commission Staff Working Paper.

The Commission therefore attaches particular importance to the satisfactory functioning of international trade in this sector, including the absence of dumping situations in the case of finished vehicles or components and the lowering of third countries' tariff and non-tariff barriers, including barriers to investment and access to distribution networks. The Commission is pursuing that aim in the multilateral discussions within the GATT.

It seems desirable for the industry itself to contribute to the achievement of that aim by assessing existing barriers or discriminatory practices and the dynamic impact which their removal would have.

In addition, the Commission will endeavour to bring about the harmonization of technical and environmental standards in a multilateral framework so that the Community's internal policy on motor vehicles can have an external knock-on effect.

6. The responsibilities of the social partners

The increasing flexibility of modern production equipment makes more flexible working practices - agreed upon by both sides of industry - and greater worker responsibility both possible and necessary.

Dialogue between the various partners will therefore be both a democratic necessity and an efficient way of mobilizing the entire motor industry.

One of the key objectives of the dialogue will be to identify how those working in the sector can become more involved and assume more responsibility.

The objective of involving intermediate and management level staff is part of the process of making personnel more conscious of their responsibilities.

This dialogue needs to take place at all appropriate levels and in particular at regional or company level. Responsibility for its content lies primarily with the social partners. In view of the parallels that can be drawn between certain problems, in view of their transfrontier nature, and in view of the Community's responsibility for this key sector, the Commission must take account of this question. Moreover, Article 118 of the Treaty gives the Commission the task of promoting dialogue between the social partners. It therefore offers its encouragement to all of those involved in this dialogue. Moreover, the European Parliament has made known its support for the setting up of a Motor Industry Forum bringing together the various parties in this sector.

D. Conclusions

The EC car market is, and will remain, the most important integrated car market in the world. Its continuing growth can form the basis for further expansion in EC passenger car production and thus for the sound development of the EC's car and car component industry.

However, competition in the EC's export and internal markets is increasing. For the latter, this results partially from the progressive opening of hitherto protected EC markets to Japanese competitors. This increasing competition represents a formidable challenge to the EC car industry.

The technological edge of cars produced in the EC, their high quality, good performance (including in fuel economy) and the wide range of models on offer which are well adapted to consumer demand are the EC industry's strong points, and these could be developed to keep competition at bay and to defend or increase the EC's share of third markets.

There are, however, some important weaknesses which have to be overcome by the industry. Changes have to be effected at the individual company level as well as in the interplay of the car producers with their upstream and downstream sectors, where better collaboration and coordination of efforts is necessary.

One major contribution to the process of industry-wide modernization of structures is the completion of the single market: the fragmentation of the European car market, which considerably hampered our car industry's prospects, will come to an end once technical and environmental standards are harmonized and indirect taxation and charges are brought closer together. Furthermore, the single market will stimulate intra-Community collaboration compatible with competition requirements, a process already under way.

To increase the industry's performance requires substantial adaptation of the size, structure and skills of the workforce. The new Article 123 of the Treaty provides the possibility of using the Social Fund to facilitate these adaptation processes, in particular through supporting professional training and reconversion. Pilot projects, aimed at increasing the quality of the training of the workforce could be implemented in the framework of existing EC training programmes.

Further efforts are needed in the field of research and development. The Commission plans to step up Community spending in this field and to make its R&D policy a more efficient tool for coordinating private and national action.

The environmental problems linked with transport require major improvements in technology and consideration of the possible contribution of traffic management and new transport concepts to their solution. European industry will have to watch developments regarding policies and products on the international scene to remain competitive in this rapidly changing context.

The Commission is aware of the increasingly important role of component manufacturers. The competitiveness of this subsector is a major concern, not only because of its economic importance but also because of its contribution to the overall performance of the car manufacturing value chain.

The Commission's analysis shows that for the necessary changes to materialize, considerable efforts will be required from all parties directly involved. The responsibility for these changes lies first and foremost with the industry itself, including better social partnership. National and Community authorities should support these efforts and thus create the environment in which these changes can be successful.

ANNEX

General acts taken under competition law and with a bearing on the motor vehicle industry

- Communication on subcontracting agreements.(1) This text allows both parties to avoid the ban on agreements in certain circumstances, and constitutes the basis for the development of cooperation between car producers and equipment manufacturers.

- Regulation (EEC) No 418/85 facilitating cooperation on research and development for the exploitation of results and the establishment of a common policy on licences; in this connection, the exemption granted could include cooperation involving the distribution phase.

- Regulation (EEC) No 4064/89 on the control of concentrations. This allows the rapid creation of certain groupings on condition that proper competition is maintained and that dominant positions are neither created nor reinforced thereby.

- Regulation (EEC) No 417/85 on specialization agreements. This allows exemption for company agreements, e.g. concerning joint production carried out either by a subcontractor or within the framework of a joint venture; this exemption could be extended to include the distribution phase.

- Regulations (EEC) Nos 2349/84 and 556/89 applying Article 85(3) of the Treaty to certain categories of patent and know-how licensing agreements, facilitating the transfer of technology.

- Regulation (EEC) No 123/85 on certain categories of motor vehicle distribution and servicing agreements.

It should be pointed out that financial intervention in this sector is carried out within a framework which is due to be reviewed at the end of this year.

(1) OJ C 1, 3.1.1979.

FINANCIAL IMPLICATIONS

This Communication has, by its nature, no financial implications. If applicable, these will be specified when the Commission puts forward specific proposals for action.

IMPLICATIONS FOR SMALL AND MEDIUM SIZED ENTREPRISES

The actions described in this Communication will have a favourable effect on all the sectors connected with the automobile industry and, in particular, on the SMEs which already contribute substantially to the performance of this sector which is at the forefront of technology.

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