



European Communities

EUROPEAN PARLIAMENT

SESSION DOCUMENTS

English Edition

23 May 1991

A3-0140/91

REPORT

of the Committee on Economic and Monetary Affairs and
Industrial Policy

on European Car Industry

Rapporteur: Carole Tongue

PE 146.412/fin.
Or. EN

A Series: Reports - B Series: Motions for Resolutions, Oral Questions - C Series: Documents received from other Institutions (e.g. Consultations)

*	= Consultation procedure requiring a single reading	**II	= Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment
I	= Cooperation procedure (first reading)	*	= Parliamentary assent which requires the votes of a majority of the current Members of Parliament

C O N T E N T S

	<u>Page</u>
Procedural page	3
A. MOTION FOR A RESOLUTION	4
B. EXPLANATORY STATEMENT	10
ANNEX: Motion for resolution by de DONNEA on Community policy in the motor vehicle sector (B3-0246/90)	23

By letter of 1 December 1989 the Committee on Economic and Monetary Affairs and Industrial Policy requested authorization to draw up a report on European Car Industry.

At the sitting of 2 April 1990 the President of the European Parliament announced that the committee had been authorized to report on this subject.

At its meeting of 21 March 1990 the Committee on Economic and Monetary Affairs and Industrial Policy appointed Ms Tongue rapporteur.

At its meeting of 20 March 1990 the Committee on Economic and Monetary Affairs and Industrial Policy decided to include in its report the following motion for resolution which had been referred to it:

- motion by de Donnea on Community policy in the motor vehicle sector (B3-0246/90).

At its meetings of 18-20 December 1990, 27-28 February and 1 March 1991, 2-3 May 1991 and 21-22 May 1991 the committee considered the draft report.

At the last meeting it adopted the motion for a resolution by 40 votes with 1 abstention.

The following took part in the vote: Beumer, chairman; Desmond, vice-chairman; Fuchs, vice-chairman; de Montesquiou, vice-chairman; Tongue, rapporteur; Alavanos (for Herzog), Barton, Peter Beazley, Bernard-Reymond, Bofill Abeilhe, Cassidy, Caudron, Cox, Cravinho, David (for Crawley), Ernst de la Graete, Fitzgerald (for Lataillade), Friedrich, Herman, Hoff, Hoppenstedt, Lulling, Magnani Noya (for Mihr), Mattina, Merz, Patterson, Peter (for Donnelly), Pinxten, Read, Riskær Pedersen, Roumeliotis, Sanz (for Colom I Naval), Sboarina, Siso Cruellas, Speciale, Stevens, Titley (for Seal), Van Hemeldonck (for Metten), van der Waal (for Ruiz Mateos), Wettig, von Wogau.

The report was tabled on 23 May 1991.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

MOTION FOR A RESOLUTION

on European Car Industry

The European Parliament,

- having regard to the Commission's Communications "A single market in cars" (SEC(89) 2118), "The future of the Motor industry" and "Industrial policy in an open and competitive Environment" (COM(90) 0556),
 - having regard to the earlier Parliament reports on the European Car Industry (A2-0171/86¹, 1-1505/83² and 1-0673/80³),
 - having regard to the written and oral submissions at the Parliament hearing on the car industry on 28-29 October 1985,
 - having regard to the motion for a resolution tabled on 7 February 1990 by Mr de DONNEA on Community policy in the motor vehicle sector (B3-0246/90),
 - having regard to the submissions at the Parliament hearing on EC-Industrial Policy on 19 June 1990,
 - having regard to the report from the Massachusetts's Institute of Technology,
 - having regard to the report from the House of Lords Select Committee,
 - having regard to submissions from parties concerned in the course of the elaboration of the present report,
 - having regard to the report from the Committee on Economic and Monetary Affairs and Industrial Policy (A3-0140/91),
1. Notes the importance of the European Car Industry to the European economy and employment; there are 2 million people directly employed and 7 million indirectly;
 2. Regrets the absence of a clear written plan with appropriate timing for the complete removal of all technical and other barriers to free trade in all motor vehicles manufactured within the European Community;
 3. Notes the increase in Japanese market shares and transplants in Europe during the years 1980-1990 and draws attention to the US experience of Japanese transplants, which rose by 25% between the years 1975-1990;

¹ OJ C046, 23.2.1987, p. 111

² OJ C117, 30.4.1984, p. 68

³ JO C028, 9.2.1981, p. 17

4. Recognises the need for the European car industry to adapt to the challenge of the Single Market conditions and Japanese competition, while taking into account technical progress, the trend in environmental protection requirements and transport policy in general; welcomes the Community experience in the telecommunications and aerospace sectors of providing strong support from Community financial and human resources for European Technology;
5. Draws attention to the constraints imposed by the protection of the environment (reduction of exhaust pollution, the need to salvage and recycle wrecked cars, action to combat the greenhouse effect, etc.) which will involve the car industry in sizeable expenditure (physical and intellectual investment) to make its products (in operation and how they are manufactured) more environmentally compatible;
6. Believes that to achieve such change, and to prepare for more open competition, the European car industry needs a transitional period during which voluntary restraints on certain, and in particular Japanese, exports to the European Community continue to operate;
7. Regrets the Commission's failure to consult the social partners on its communication prior to the holding of discussions with the Japanese in order to reach "flexible and discreet" arrangements concerning imports and transplants;
8. In view of the fact that the Toyota and Honda Motor Companies' plans to start manufacture of motor vehicles in Britain are well advanced in addition to the current local production of Nissan, considers therefore that the export of additional Japanese motor cars to the European Community must be balanced with their local manufacture in Europe and form part of a single quota;
9. Believes that, after the transitional period, full liberalization of trade should be conditional on the genuine opening up of the Japanese market and genuine compliance with GATT rules by all car manufacturing countries;
10. Notes the large scale importation of secondhand cars from Japan into Ireland which were manufactured to the Japanese domestic standard and which have never been tested to European Type Approval specifications and the implications of this development in the light of the proposed total freedom of movement of vehicles between Member States with the introduction of the Single Market;
11. Believes further that, to justify the costs which a transitional period will impose on European consumers, the Community institutions have a duty to satisfy themselves that European producers will use the opportunity thereby provided to equip the industry to compete successfully with the best in the world;
12. Being fully aware of the need for the European Community motor car and truck industry to become fully competitive worldwide, supports the development of car production in Southern European countries;

13. Believes that in this way greater efficiency and competitiveness as well as social equality will be attained throughout the European Community and a better balance be achieved in European car production; the objective should be the upgrading of the standard of living of such countries towards a common level throughout the European Community, combined with a rising standard of efficiency and competitiveness in relation to non-European Community producers;
14. Wishes to be informed of the Community plans in some sectors for social accompanying measures in the context of rationalization and restructuring, but considers that such measures should respect workers' interests and their right to good working conditions and fair wages. Being aware of the very considerable cost saving which the up-to-date technology relating to the rationalization of production has introduced into Northern European motor car factories and the consequent reduction in production workers and staff as well as man hours worked necessary to build a motor car, appreciates the changed balance between capital investment and labour required to compete in the international motor industry. Therefore is concerned that the Community's plans for social measures in certain sectors should be related appropriately to both the restructuring of the industry and the retraining of the workforce which has been made redundant by the increased level of technology needed to be applied in the industry. Such measures should be considered for the car industry in the framework of a genuine industrial policy at the Community level;
15. Welcomes the initiatives by some manufacturers and trade unions concerning adult education and considers furthermore vocational training at all levels one of the key elements for workers' motivation and effectiveness and, consequently, for an increase in competitiveness;
16. Insists on compliance by Member States with the directive on mass redundancies in case of closures and anticipates the forthcoming Community proposal on consultation and information of employees;
17. Calls for the rapid processing of the proposed directives on modified hours of work and atypical employment contracts, in order to make the introduction of flexible and deregulated employment conditions subject to minimum requirements at Community level;
18. Welcomes the conclusions in the Commission's paper on the Urban Environment and urges vigorous action on their implementation;
19. Welcomes the Parliament reports on emission controls for cars (Vittinghof and Alber-reports) and urges Council to adopt the measures without delay;
20. Work on European type approval should be brought to a swift conclusion, in order to strengthen the European car industry's ability to compete;
21. Notes the need to preserve the technological integrity of European manufacturing industry with particular regard to maintaining European research and development capacity; stresses the need to encourage technical progress in European manufacturing industry by an adequate research and development policy;
22. Notes the growing importance of the components sector and of the complex interrelationships between final assemblers and components suppliers;

23. In the interest of openness and accountability, and to ensure that a consensus underpins Community strategy on the car industry - insists that any restructuring of the industry be managed in a positive and practical way through dialogue and partnership between the main actors, i.e. manufacturers, trade unions, consumers, politicians, local and regional authorities;
24. Underlines that this partnership is particularly important at local level involving municipalities and regions where the car industry has, or will have, a significant presence;
25. Notes the existence, in different economic sectors, of joint committees where the social partners and the EC Commission discuss economic and social policies for the sector concerned;
26. Welcomes, in this context, the commitment by the Commission under Art. 10 of the European Regional Development Fund to establish a European network of Motor Industry Regions and Municipalities as an initial step in the introduction of an integrated, community-wide motor industry programme, and urges that the remaining elements be investigated and implemented as a matter of priority;
27. Calls on Member States' governments and the Council
 - a) to support the rapid development of economic and monetary union in order to promote financial stability and to encourage long-term, low-interest investment in manufacturing industry,
 - b) to provide increased investment in vocational training,
 - c) to encourage
 - aa) investment in cheap, efficient, safe integrated public transport systems
 - bb) incentives to encourage the transport of freight by rail
 - cc) fiscal measures to reduce petrol consumption
 - d) to consider that improved human relationships between governments, management and workers together with improved cross-border links are essential to the restructuring of the European motor car industry on an internationally competitive basis;
28. Calls on manufacturers and trade unions as a matter of urgency
 - a) to support the EC social action programme and particularly Commission plans to improve the social dialogue as outlined in its 1991 Work Programme,
 - b) to take full advantage of any transitional period to achieve the improvements in manufacturing methods, product/process innovation, investment levels, training and industrial relations needed to equip the industry for global competition and to improve working conditions,
 - c) to play their part in developing an industrial relations system which maximises job satisfaction, industrial democracy and productivity and favours change and innovation to benefit mutually the social partners and the industry as a whole.

- d) to commit increased resources to better European trade union organisation and improved cross-border links and to prepare staff and workforces with their trade unions to adjust themselves to the necessary changes between capital and labour in the structure of the industry, which a Single European Community without internal barriers between Member States will require in order to be internationally competitive;

29. Calls on the European Commission

- a) to establish as rapidly as possible an EC forum for the motor industry bringing together representatives of the Commission, manufacturers and trade unions and local and regional authorities with the MEPs concerned to discuss industrial, social, environmental and transport policies as they affect the motor industry,
- b) therefore, in the context of this partnership, to develop a better resourced and more integrated policy for the sector as a whole which would discuss urgently all matters concerning the creation of a single market in cars, with particular regard to the access of Japanese and other imported cars to the Community market,
- c) to set discussions with European car producers in a context of reciprocal commitments; in particular, to require that the producers supply sufficient information on corporate strategy to allow an informed evaluation by the EC institutions that their policies of: a transitional period; training; R & D support etc., are achieving their intended economic and social goals,
- d) to monitor progress towards these goals and maintain a dialogue with the social partners,
- e) to set up a scientific committee of experts to provide periodic evidence on economic, technological, organisational and social development in the automobile and components industries,
- f) in view of the concern of MEPs for the competitiveness and efficiency of industries at risk to foreign competitors like the motor car industry, to consult formally in much greater depth and on a continuing basis with the European Parliament Members whose constituencies are vitally concerned with the efficiency and competitiveness of the European motor car industry as well as other European industries under threat from outside competition,
- g) to put into place a system of early warning of significant structural change, both in areas of expansion and decline, so that infrastructure; training; social and personal support programmes may be implemented,
- h) to consider the financial and structural implications of such policies which may be necessary as a result of any restructuring in the industry,
- i) to provide regular reports on the structure of the EC automobile and components industries considering:
- development,
 - production,
 - sales,
 - management concepts,
 - supply strategies,
 - new technologies,
 - employment organisation,
 - quantitative and qualitative development of employment,
 - social standards,
 - industrial relations developments,

- j) to promote Community-wide research into the spatial and labour force consequences of the impact of technological change and environmental influences on the motor industry,
- k) to develop an EC vocational training programme for the application of new technologies and updating of the skills of the workforce and for those people displaced by structural decline and closure in the motor industry,
- l) to develop an EC programme to support human-centred employment and employment organisation in the motor industry,
- m) to prepare proposals aimed at maximising European local content, including in particular, a local R & D component,
- n) to support specific R & D programmes within the motor car industry to improve its efficiency and competitiveness, to prepare itself technically for the future demands of the car owner and driver, the Community and its environment and to align itself better opposite other means of transport and social requirements, in particular with regard to safety, traffic density, road requirements and inner city traffic congestion and to help the industry in particular through R & D, regulations and financial instruments to step up its efforts to salvage and recycle wrecked cars,
- o) to bring forward proposals for an EC programme to support the development of environmentally-acceptable integrated transport systems for both people and goods,
- p) with all those concerned (oil industry, car industry, etc.) to set up a clean fuel R & D programme,
- q) to ensure that all recruitment and retention practices in the industry conform with EC equal opportunities legislation,
- r) to draft a plan with appropriate timing to permit motorists owning motor cars manufactured within the European Community to drive them without 'let or hindrance' across frontiers between any Member States,
- s) to contest all contraventions of the European Community's competition policy, in particular in regard to all national subsidies and State aids relating to the motor industry, which fall outside the bounds of that policy,
- t) to take appropriate measures to deal with the implications of the large scale importation of secondhand cars from Japan into Ireland, taking the volume of imports of secondhand cars into account in determining the quota, voluntary or otherwise, of motor vehicles which will be allowed to enter the total market of the European Community until the introduction of mandatory harmonized European Type Approval Regulations,
- u) to further progress on other outstanding dossiers, especially EC type approval;

30. Instructs its president to forward this resolution to the European Commission, the European Council, Member States' governments, national parliaments, the Association Des Constructeurs Européens D'Automobiles (ACEA), ITUC, MILAN (Motor Industry Local Authorities Network), consumer and environmental organisations.

EXPLANATORY STATEMENT

1. BACKGROUND

The importance of the European motor industry, in both economic and social terms, has long been recognised by Member States and the social partners. Indeed, the specific needs of the industry have previously been examined in reports to the Committee on Economic and Monetary Affairs and Industrial Policy¹ and hearings on the industry organised by the Committee have taken place².

The most recent report to the Committee (the Beazley report) identified 4 major problem areas for the industry, namely:

- overcapacity;
- the uncommon market;
- Japanese penetration of the European motor vehicle market;
- competitiveness.

In the four years following that report demand within the Community grew sufficiently strongly for overcapacity fears to recede. These conditions also saw strong profit growth returning to the major European motor manufacturers. Recently, the approach to 1992 has led to a quickening of the process of restructuring with a number of weaker competitors either seeking the protection of, or being unable to resist the approach, by stronger groups. Thus, while an uncommon market still exists for the industry, it is in a more appropriate shape to confront the completion of the common market.

Japanese competition for the domestic industry remains, and has latterly been sharpened by the growth, actual and intended, of Japanese transplants in Community countries. It is widely accepted that the domestic producers still lag some way behind the competitiveness of the Japanese in virtually every segment of the vehicle market. There is concern of the US experience where Japanese production capacity rose by 440% between the years 1985-1990. Furthermore, this production capacity is projected to increase to 2.26 million units by 1992.

Added to the problem of Japanese competition, concern with the environmental impact of the motor vehicle, both in terms of its production and use, has heightened considerably, forcing domestic manufacturers to devote more resources to finding acceptable solutions, in advance of clear cut guidelines from the Commission. Finally, a completely new element has been introduced by the openings created by Eastern European countries for investment by Western European manufacturers. This has obvious implications for increased trade between Community manufacturers and the countries of Eastern Europe. It also raises the prospect of a shift of productive resources by domestic manufacturers into Eastern European economies.

¹ The own initiative report on the European Community automobile industry by Peter Beazley, (doc. A2-0171/86).

Bonaccini report on European automobile industry, doc. 1-1505/83.

Bonaccini report on European automobile industry, doc. 1-0637/80.

² Hearing on the automobile industry in the Community, 28-29 October 1985.

It is against this backcloth that the Commission, in January 1990, released a communication (the Bangemann report) entitled "A Single Community Motor Vehicle Market", followed in February by a Commission staff working paper "The Future of the Motor Industry". Between them, these documents once again emphasised the economic and social importance of the Community's motor vehicle industry. More controversially, however, the Bangemann report set out what appeared to be the Commission's view on how Japanese imports and transplants were to be accommodated by the Single European Vehicle Market. Briefly, the Commission argued that relatively minimal restraint on Japanese manufacturers was in order. Demand was expected to be sufficient to offset the extra capacity implied by the development of transplants. Moreover, competition from efficient Japanese producers, whether operating inside or outside the Community, would accelerate the restructuring necessary for domestic producers to close the productivity gap with the Japanese.

It was quickly evident that the social partners in the industry did not generally support the Commission's view. However, whereas a Commission communication of such importance would normally have been followed by an extensive consultation period prior to any final position being determined, the opposition of the social partners had barely begun to be expressed before Commissioners were holding discussions with the Japanese with the intention of reaching "flexible and discrete" arrangements concerning Japanese imports and transplants.

Given the depth of hostility to the Commission's proposals within the industry and the crucial importance of the car industry to the European economy, the Committee on Economic and Monetary Affairs and Industrial Policy agreed to prepare an own initiative report aimed specifically at assessing the challenges and opportunities generated for the industry by the completion of the Single Market. The Committee felt that an own initiative report would provide an appropriate means of representing the views of the social partners on the Commission's proposals thereby offsetting the minimal consultation which had hitherto taken place.

Given the accepted view of the industry's strategic importance in both economic and social terms, it is scarcely credible that the Commission should contemplate determining key aspects of the future competitive environment which will condition the industry's future development and viability without allowing appropriate time for a full and far reaching consultation with the social partners. There is a clear role for the European Parliament here, as the only democratically elected body in the Community to ensure that a broad cross section of views are expressed in this matter.

The question of how the Single Market deals with Japanese imports and transplants is an important issue which, if handled inappropriately, could seriously damage the prospects of one or more of the established domestic manufacturers. It is by no means the only issue. However, in the Commission's seeming haste to force the pace on the 'Japanese question' other equally important issues, for example linkages with future Community wide transport and environmental strategies or the need to pre-empt 'social dumping' by domestic manufacturers have been given insufficient attention.

This report is an attempt to re-introduce these and other issues into the mainstream of the debate concerning the Single Market and the motor industry. It takes as its starting point the need to ensure that future policies and the competitive framework are geared to provide both opportunity and incentive to

domestic manufacturers to raise their productivity and efficiency to compete on equal terms with the best of the global competition.

To this end the report recognises the views of the social partners with regard to the best ways of ensuring the benefits flowing from the Single Market are optimised in the interests of domestic manufacturers, their workforces and the consumer. It is axiomatic that future restructuring of the industry should aim to balance these interests. In this respect an appropriate forum could be created at Community level which ensures that future plans for the car industry are discussed democratically with all the views of social partners and the European Parliament taken fully into account.

2. SUPPLY AND DEMAND: CERTAINTY AND UNCERTAINTY

The Commission have put forward their views of future trends in supply and demand for the industry. Echoing the optimistic conclusions reached by the architects of the '1992 process', the authors of the Commission communication assume that, apart from a cyclical depression in 1990-1991, the industry will enjoy steady growth rates prompted and sustained by the economic growth flowing from the Single Market. Hence:

"In general, the Commission perceives no great threat to the balance between supply and demand, and believes that the degree of capacity in production will remain throughout the next decade at a level of about 85%, compatible with the sectors' continued economic well-being".

Central to this belief is the Commission's conclusion that:

"The investment announced by the Japanese will take some time to bear fruit".

What is readily evident is that the Commission are alone in these views. The social partners in the industry take a completely opposite view. With regard to the future balance of supply and demand it is widely predicted that the next few years will see a slow down in the growth of the European motor vehicle market whilst additional capacity from domestic manufacturers, in the shape of new investment from GM, Ford, Peugeot and VW, will all be coming on stream. Added to this, it is now clear that Japanese transplants in both the UK and Spain are likely to add a further 450,000 units by 1995 rising to 800,000 by the end of the 1990s. In short, new domestic capacity plus transplant capacity is likely to raise overall capacity in Europe by at least 10% in the next 5 years. Indeed, one major manufacturer (GM) has suggested that over-capacity could be even higher at 19% by 1995 leading to the closure of between 9 and 12 car plants across the Community.

It must be doubtful whether the cyclical depression will take only 2 years and also whether the impact of any such depression will be negligible on the long term growth trend. It is probably safe to say, as the Commission concedes, that the effects of any downturn will be felt unevenly across EC markets. There is already evidence of this. For example, in the first quarter of 1990 the car markets in the UK and Spain dropped by 7.7% and 10.7% respectively whilst those of Germany, France and Italy continued to grow by 4.9%, 10.8% and 5.6%.

Latterly, of course, world oil prices have become volatile in the wake of the Gulf crisis. Without prejudging the outcome or the duration of this problem it is already clear that the higher price of oil on world markets will have a negative impact on the motor industry and could add to the pressures which are presently slowing economic growth rates in most Community countries. Unless stability is restored, the beneficial effects of the 1992 process could be seriously undermined. This being so, it is probably unwise to accept the Commission's bullish view of the industry's demand prospects.

Even without the Gulf crisis there is no foundation for the Commission's belief that the domestic industry has some breathing space before Japanese transplants become a threat.

In sector after sector the Japanese have demonstrated how to shorten time between initial investment and fully competitive operation. Much of their success has been based on the speed with which they can enter and dominate a market. Ample evidence can be found in the rapid build-up of Japanese market share in the US and in those Community countries which do not operate any form of import restraint against the Japanese, for example Germany, where Japan's market share has reached 15%.

Hence, the Commission's conclusion that:

"... generally speaking there should not be any great disparity between supply and demand in Western Europe, as long as the market is not suddenly flooded with imports".

cannot be said to accord either with the facts or the expectations of the European social partners themselves. It is not simply a question of the level of imports. Much more important is the maintenance of growth in demand sufficient to cope with the extra European capacity. Whilst we can be reasonably certain about the growth in capacity we cannot be certain about the growth in demand.

It is plain that the Commission's confidence that supply and demand within the industry will remain in balance in the coming years is based on a critical assumption that competitive pressures will force marginal capacity amongst domestic manufacturers to be scrapped.

It is equally clear that the Commission sees those competitive pressures being sharpened by the opening of the European Market to Japanese imports and transplants. Whilst this prospect has tended to dominate the initial stages of the debate, latterly the opening up of Eastern Europe has raised the real possibility of a further set of competitive pressures. The critical difference being that Eastern Europe offers a stimulus to both supply and demand and provides opportunities for Europe's domestic manufacturers to influence, significantly, the interplay of, and development of, these forces.

Clearly, the countries of Eastern Europe offer potentially huge markets for motor vehicles. At the same time, they offer equally attractive locations for investment in productive capacity combining low cost factory resources with very cheap but relatively skilled and well educated labour. Given the level of underdevelopment which is evident in Eastern Europe, it seems likely that future joint ventures between Western European motor manufacturers and their Eastern European counterparts will be aimed at earning hard currency for the Eastern Europeans by exporting into Western Europe a substantial proportion of

their output. It will take some time before incomes in Eastern Europe will be able to absorb all the output from their revitalised motor industry, although ultimately we can expect rapid growth in these car markets.

Just as the domestic manufacturers fear the impact of unfettered Japanese competition in Community product markets, so too do the industry's unions fear the social dumping which Eastern European labour markets may encourage.

Finally, any attempt to determine broad policy frameworks for the industry cannot be solely based on likely future trends in supply and demand. The relationship between the motor vehicle and the environment and car use and transport strategies have to be considered. As is pointed out in a later chapter, concern with the environmental impact of a range of industries in the Community has grown rapidly in recent years. The evident difficulties associated with the environmental damage accruing from the lower standards practised in various Eastern European countries are likely to add further to that concern. Other negative environmental and social impacts are observable in the growing congestion which characterises many Community cities. The need for integrated transport systems to alleviate these problems is emerging in political debates across the Community. It seems likely that a rebalancing of private and public transport modes is likely to result if our major cities and conurbations are to avoid a choking decline. It would be irresponsible if the Commission and social partners did not take such developments into account when assessing future supply and demand trends for motor vehicles in the Community.

3. MODELS OF PRODUCTION AND COMPETITIVE STRATEGIES

Whilst the Commission's communication recognises the problem of the lack of competitiveness of domestic manufacturers, it nevertheless remains curiously optimistic:

"Analysis of competition on outside markets shows a disquieting decline in Europe's share, with however a capacity to resist which gives some hope that, despite serious handicap, positions will be held in the future".

The fragility of the Commission's thinking is perhaps most exposed in the way in which they outline why there is "hope" that despite serious handicaps the position of the established, i.e. non-Japanese, motor manufacturers can be held in the future. It all comes down to the Single European Market and the stimulus that this will give to existing European producers to improve their productivity and quality, diversify their sources of supply and encourage innovation. Such stimulus has existed for some time on both world and European markets and, by comparison with the Japanese, virtually every European producer has been found wanting.

The rapid rise and success of the Japanese motor industry has been widely studied. It is generally agreed that the roots of their success are to be found in the way in which Japanese companies have overturned the dominant Western theories and practice of product design and process engineering.

Following the lead of Toyota, Japanese companies have replaced the rigid and segregated functional specialisations, based on maximum division of labour, which have hitherto characterised 'Taylorist' models of mass production, with management systems that progressively integrate the functions of design,

planning and production engineering. As a result, Japanese motor manufacturers exhibit a speed and flexibility of response to changing market conditions which, at the moment, cannot be matched by domestic manufacturers.

In effect, the Japanese have set the new agenda for the rest of the world's motor manufacturers (in much the same way as Henry Ford did at the beginning of the century). It is plain that European manufacturers have recognised this and are struggling to adjust their managerial theories and to reconfigure their design and production systems. Much of this effort can be seen in the emphasis which is now given by all the domestic manufacturers to quality at every stage in the process. Following the Japanese, European manufacturers now try to design and build in quality rather than rely on expensive fault rectification techniques. Similarly, most domestic manufacturers are attempting to introduce 'just-in-time' parts delivery in order to cut inventory costs and to put pressure on their suppliers for better quality and more reliable deliveries.

Japanese influence is also apparent in the domestic manufacturers' drive to simplify the build of the vehicle. This is being done either by buying in more developed components to simplify assembly, or by designing less complex build combinations.

Whilst all the major European manufacturers are engaged in this catching up process (and the evidence from the US suggests that domestic manufacturers can achieve near to the best Japanese standards) the Japanese are not standing still. Moreover, their transplant operations being 'greenfield' sites do not start with many of the logistic problems which are currently constraining the attempts of domestic manufacturers to move from 'Taylorist' to 'Toyotist' methods of production. As a result, Japanese manufacturers are likely to maintain their comparative advantage insofar as productivity, quality and model development are concerned for some time yet.

There remain some question marks as to whether a complete move towards the Japanese model is viable for the European industry. For example, the shift towards 'just-in-time' deliveries and single sourcing of suppliers renders manufacturers vulnerable to industrial action which disrupts this logistic chain. The industrial dispute at Ford of Britain in 1988 and 1990 demonstrated this, as have the more recent blockades of the Spanish/French border.

That said, the other main features of the Japanese system, namely the integration of specialist functions, the constant upskilling of the workforce and a (consequent) more efficient use of flexible manufacturing systems, characterised recently as the shift towards 'lean' manufacturing, remain priorities for the domestic manufacturers.

Whilst one of the expected outcomes of the Single Market is a renewed opportunity for manufacturers to achieve economies of scale and hence lower cost operations, it may be that the optimum size of manufacturing plant in the motor industry does not change very much - at least in the foreseeable future. In the last decade, flexible manufacturing systems have lowered plant break even volumes. Current indications suggest that optimum returns in terms of productivity and quality will probably be achieved with production volumes at the individual plant of 200,000-400,000 units per year. However, it is equally clear that the hoped for survivability of small volume producers is less likely to materialise. The fact that small volume producers like Saab and

Jaguar have both recently sought the protection of larger companies is testimony to this.

Future survival strategies are likely to emphasise the achievement of competitive advantage through flexible manufacturing systems and equally flexible deployment of labour. Optimisation of output through increasing capacity utilisation via 7 day continuous shift working, and shorter model cycles. Substantial R&D effort will be essential. Above all, however, the competitive battle will be fought on the terrain of labour utilisation.

Traditional methods of mass production relied on fragmentation of tasks, tightly defined job descriptions and close supervision of the workforce. They can no longer cope with the flexibility demanded by an era of constant product and process innovation and rapid response to changing markets.

Modern production methods rely on more broadly skilled and more autonomous production workers, who are both equipped and motivated to exercise judgment and initiative in dealing with constant change. This means that primary importance must be given to investment in training, and to the mobilisation of a much higher level of worker commitment than was demanded by older methods of production. In the 1990's and beyond, better working conditions and adequate systems of industrial relations, consultation and industrial democracy will form an increasingly important part of the armoury of industrial competitiveness.

The policy frameworks adopted at Community level should encourage the efforts of domestic manufacturers in all of these areas. The Commission should actively pursue a trade-off between a transition period governing the access of Japanese imports to the Single Market, in return for jointly determined and carefully monitored corporate investments by domestic manufacturers in all of these areas. Chapter 4 considers some of the areas in which progress is needed.

4. THE SOCIAL DIMENSION

It is vital that the social dimension of future developments in the Community motor industry should be addressed. The concept of the 'level playing field' in social provision to bring social costs into line and hence scale down the opportunities for social dumping is well established. The difficulty is certain to lie in the shift from concept to reality.

As it stands, the industry is shot through with major differences in social practices which make for significant differences in the level of social costs borne by the domestic manufacturer.

Working time is a good illustration of the problem. Recently, the West German industry has led the field in achieving reductions in annual working time. Currently, a West German car worker can be expected to work around 250 hours per year less than his or her British counterpart. Conversely, in Britain and Belgium, the industry appears to be moving more rapidly towards 7 day continuous working. In Germany, by contrast, weekend leisure time is still fiercely guarded. Statutory and collectively agreed holiday provision also combine to produce differing annual hours of work in the industry across the Community.

Other important features such as health and safety requirements and systems of worker participation provide equally marked differences between the operations of the domestic manufacturers in different parts of the Community.

It is recognised that the Social Charter and the Social Action Programme are designed to cope with some of these differences. However, whilst the Action Programme contains a strong commitment to legislation to harmonise health and safety standards, progress on worker participation and information disclosure is slow. In addition, action to ensure the harmonisation of collective rights to organise, bargain and, if necessary, strike, appear to be being left to national determination under the principle of subsidiarity.

The inevitable conclusion, looking at the disparity which currently exists in social provision in the industry and the specific legislation proposed in the Social Action Programme, is that the social dimension, insofar as it applies to the motor industry, is likely to receive far less attention than it deserves.

Given the restructuring of the industry, which seems inevitable in the face of changing competitive conditions in the years to come, there is an urgent need to revisit the question of how to harmonise the industry's social provisions and practices. This must plainly involve dialogue and agreement between the social partners but at a European rather than a national level. It may, for example, prove feasible to establish a European framework agreement which lays down minimum standards covering issues such as hours of work, participation, information disclosure, holiday provision, maternity and paternity rights, sick pay, early retirement and education and training (the list is neither exhaustive or in any particular order of priority). Against this framework agreement company specific agreements could then be concluded at either national or European level, which would ensure that these minimum provisions (or better) were incorporated into collective agreements. In the case of restructuring it is clear that the EC would have to consider changes to both the ESF and its structural funds to ensure financial support were made available to areas where there were to be significant job losses in the industry.

5. THE ENVIRONMENTAL CHALLENGE

The Bangemann report's bullish analysis of the prospects for the EC car industry in the 1990's rests, as we have seen, on demand projections which imply a further increase of 10-15% in the number of cars on European roads. These are hard to reconcile with the growing environmental pressures to which the car industry, in Europe and world-wide, is subject. This section of the report reviews briefly the evidence of growing public and political pressures, which are likely to require fundamental changes in the motor vehicle industry over the next decade, affecting the nature of the product, its use, and the level of demand.

The Greening of European Consciousness

Over the last twenty years, the motor vehicle industry has attracted ever closer attention from environmentalists, whose warnings have found an increasingly receptive audience in the political community, and among the wider public. Much of the concern expressed over the environmental impact of motor vehicles has focussed on five areas:

- vehicle emissions
- health and safety
- congestion and pressures on urban space
- noise
- destruction of the countryside

It is not the purpose of the present report to review or evaluate the evidence on these issues, on which an extensive literature already exists³. What is important to our consideration of the future of the European motor vehicle industry is the impact changing environmental attitudes are likely to have in the next decade or two on the level and nature of the demand for cars, both in the domestic European market, on which most of the Community's vehicle producers most heavily depend, and in the other major markets in which European producers compete.

One area where the increasing urgency of environmental protection is having a clear impact is the control of vehicle emissions. The Community itself last year introduced emissions limits on small cylinder motor vehicles (below 1,400 cc) and a corresponding Directive on larger vehicles received its first reading at the September 1990 plenary of the European Parliament. These Directives will require all new cars to be fitted with catalytic convertors from January 1993. The EC measures are still more lax, however, than those in force in the US, Japan and non-EC European countries such as Switzerland, Austria and Sweden. The Financial Times, 27 July 1990 commented that EC producers are likely to find themselves at a competitive disadvantage as US and Japanese industries gain a lead in adapting to stricter emissions standards.

Still tougher environmental constraints are due to be imposed on cars in the US market under the Clean Air Act now before Congress. Along with tougher emissions standards, the Act will require some vehicles to run on alternative fuels. Still more radical, the "LA Initiative" launched by the public authorities in Los Angeles aims to put 10,000 electric cars on the city's roads by 1995, and sets future emissions targets which by 2010 could only be met - barring an unforeseen technological breakthrough - if 70% of all vehicles in the region were electrically powered.

Many commentators believe that where the US leads, in environmental protection, the rest of the world will follow. But already, in Europe and the US, a range of studies and initiatives by public authorities have raised still more radical questions about the future of the car. Not simply emissions and choice of fuel have been called into question, but the pattern of use and ownership. A recent study by the Ford Motor Company, looking at the likely future of the motor car, has concluded that environmental pressures will transform the industry over the next 15 years. The study finds that the environment "will affect the size and shape of cars, what's in them, how they are made, where they are allowed to go and who can use them".

The most radical questions and proposed remedies are often found where urban congestion is worst. In densely populated regions, such as much of the Netherlands, West Germany and the United Kingdom, congestion not only

³ See, for example, the EC Task Force report of late 1989 and the OECD report on Cities and Transport.

exacerbates a host of environmental problems, but is sapping industrial efficiency and raising the cost of freight transport.

Both quality of life and industrial competitiveness are threatened. The German weekly "Der Spiegel" estimated in autumn 1989 that every German citizen was subsidising motoring by 1,500 DM per year, and at a European Parliament seminar on the environment in 1990, Dr. John WHITELEGG of the University of Lancaster quoted research showing that cars impose costs on German society 70% in excess of tax revenues. Figures for other Member States of the Community are unlikely to be far out of line with German experience. Urban dwellers throughout Europe are becoming increasingly hostile, not only to the noise and pollution caused by motor vehicles, but also the infrastructure of urban motorways, tunnels and car parks required to service them. In the Netherlands this has led to experiments in road pricing and other measures to restrict the use of cars in towns. In France, Paris is removing 200,000 central parking spaces partly to deter the use of the car, and Bordeaux plans to restrict cars on 75% of streets within 10 years. Athens has experimented with banning cars with odd and even registration numbers from entering the city on alternate days.

In West Germany, the Environment Ministry has gone so far as to say that there must on no account be any further rise in road traffic. Volvo chief Pehr GYLLENHAMMAR has said that we must banish the car from the town. Even in Britain, with a government noted for its faith in market forces and hostility to public transport, the Transport Secretary has said that there is no prospect of building sufficient road capacity to match the volume of traffic which his department forecasts will result from unchanged policies. And there has been intense debate within the British Government on ways of reducing the environmental damage caused by cars, such as the introduction of a carbon tax, or penal taxation for larger cars.

The Commission's Green Paper on the Urban Environment attributed much of the degradation of the urban environment to the fact that urban development has been premised on a high level of private vehicle use. In the Netherlands, land-use planning is now to be directed towards reducing dependence on motor vehicles, and similarly radical solutions have been advocated in influential quarters in both Britain and West Germany.

The more far-seeing leaders in the car industry have already drawn their conclusions from the inexorably rising demand for cleaner, safer, quieter towns, and for protection of the countryside from road-building. The Ford study already quoted concluded that urban congestion in industrialised countries will get so bad in the next few years that private car use will be cut. It is unthinkable that such changes in car use could have no effect on the level or-eg ally important - the nature of the demand for car ownership.

Professor Ulrich SEIFFERT, Director of Research and Development at Volkswagen, has said "whether the car can overcome environmental problems and retain its primacy in personal transport will be decided within the next decade". This is the timescale within which the European industry must respond, not only to the changes in demand already highlighted, but also to the need for more environment-friendly methods of production and disposal of cars. BMW has said that there is no reason why almost 100% of the materials used to build cars cannot be recycled, and their pilot recycling scheme at Landshut is likely to lead, by 1993, to a facility capable of recycling materials from 250,000 cars a year.

It is clear, however, that solutions focusing on the place of the car in our society, the future shape of our transport systems, and the pattern of land use, are likely to assume an increasingly prominent place in the European debate. Professor SEIFFERT has commented that the environmental problems associated with motor vehicles will worsen unless new ways are found of integrating the car into a total transport system. The German metalworkers union, IG Metall, representing some 800,000 workers in the automobile industry, has called for a fundamental rethinking of Europe's transport. While car ownership is a deep rooted and legitimate aspiration of millions, which politicians neither can nor should attempt to deny, IG Metall argue that radical changes in our transport system can greatly reduce car use, without infringing personal mobility and access.

Whereas our present transport system is dominated by the private car and, in the commercial sector, by road haulage, the way forward lies in developing an integrated and balanced transport system, in which different means of transport play complementary rather than competing roles. This will involve, among other things, redirection of public resources from private to public transport, and from road to rail; and the development of a much better articulation between the different forms of transport: for example, through park and ride schemes and better dovetailing of bus and rail timetables. Broadly comparable solutions form part of the United Nations Environmental Programme guidelines on urban transportation.

The Way Forward

It has become increasingly clear, in the course of the research for this report, that the debate over the production methods, characteristics, use and disposal of motor vehicles already occupies an important place on the European political agenda - and that the importance of the radical ideas considered above can only continue to rise over the next decade, as environmental problems become more urgent and environmental consciousness spreads. Two themes in particular stand out:

- a) pressure for more environmentally friendly vehicles: low-polluting, smaller cars, electric vehicles, recyclable materials etc;
- b) pressure for exclusion of private vehicles from towns and an enhanced role for public transport.

As the report has shown, prominent figures in the industry itself share this view. The challenge for the industry is to develop a strategy to respond to a future radically different from even the recent past.

To secure its future, the European vehicle industry must become leaders, not laggards, in clean car technology, and in clean production and disposal. They must also broaden their strategy, to take account of a future in which there are likely to be rapidly growing opportunities in such fields as public transport and electronic traffic management systems. The Community, together with the national and regional transport authorities of the Member States, has a duty to create a policy framework within which producers can plan and invest with confidence in this new future.

The point has been made repeatedly by both sides of the industry, in the course of the research for this report, that this can only be achieved by the

development of a medium-term industrial strategy for the automobile industry, with the participation of producers and trade unions, and against the background of a broader framework of European transport policy. That framework must include a far greater commitment on the part of Member States and the Community to integrated transport planning.

6. INTERVENTION AND THE MARKET: A TRANSITIONAL PERIOD

It would be a mistake to believe that the Community's motor industry has somehow hitherto been protected from competitive forces. Although there are well known cases of governmental support for, and ownership of, key players, the sector has nevertheless been well described as "... a rivalrous oligopoly".

With the arrival of Japanese imports (and those from other Pacific rim countries like South Korea and Malaysia) and transplants, competition has certainly increased in the last decade. As a result, market forces have already been at work reshaping the industry and forcing the sort of changes that were outlined in Chapter 3. It seems highly likely that these forces will continue to promote restructuring in pursuit of lower costs and greater efficiencies.

These pressures would have been in place irrespective of the 1992 process, although the pressure from transplants may have taken slightly longer to appear. The question remains, nonetheless, of what role governmental or Community wide official interventions can play.

It should be stated from the outset that the overriding aim must be to make the domestic industry competitive. Equally, it is strategically important to preserve as much as possible of the productive capacity of the established players whilst not excluding the beneficial effects of allowing an increased Japanese presence into the market. The problem simply stated is to find a strategy which enables the domestic manufacturers to improve their efficiency without overprotecting them at the expense of the Community's taxpayers.

There is wide agreement amongst the social partners that the best way to achieve this would be progressively to increase Japanese access to the Single Market by a transition period. Such a policy would aim to:

- ensure that the domestic manufacturers put into effect investment policies which would eradicate the gap between themselves and the Japanese manufacturers in terms of measurable efficiencies;
- ensure that Japanese transplants could demonstrate a local content, i.e. European produced and sourced content, of at least 80% of direct factory costs (that is excluding the ex-factory gate costs of advertising and distribution);
- in addition to the requirement of 80% local content, the EC Commission should pursue a vigorous policy aimed at maximum local R&D associated with transplants;
- provide for a reciprocal opening of the Japanese market to European motor manufacturers.

A transition period would provide one way out of the contradictory position that the Commission's communication implies, namely that:

"... an open market must respect the following:

- the rules of international trade;
- the need to avoid a sudden shock to the Community industry".

The difficulty here is that if the open market of the EC followed the rules of international trade it would almost certainly be followed by a sudden shock to Community industry. The current GATT rules on international trade are widely ignored or bent by many countries. The present Uruguay round of GATT negotiations may effect some remedies but whether or not they are capable of being implemented effectively during the next ten years remains to be seen. Hence, the Commission's view that the only rules which should apply by the end of the transition phase will be the "... general rules of international trade" must constitute a high risk strategy unless the transition period is also linked to some targetted and measurable improvement in the overall trading performance of those countries which are currently playing outside the GATT rules.

The Community shares with the European vehicle manufacturers a commitment to maximising the competitive strength and prosperity of the European motor vehicle industry. But, as guardians of the wider public interest, the Community must be concerned with balancing that commitment with the interests of Europeans as consumers and as workers. Community policy towards the length and nature of the transition towards more open markets should start from a recognition of this role as guardians of the wider public interest.

The implication is that the length and nature of the transition should be the product of negotiation with the manufacturers. A case can be made for a transitional period, from 1993, of between 4 to 7 years. Within this range, the balance of public interest in a longer or shorter transition depends on the extent of the commitments that the industry is able to make to the investment, R&D, training, industrial relations and social and environmental measures which this report has identified as essential, both to the modernisation of the industry and to the fulfilment within this sector of the social dimension of the Single Market.

In short, the transition phase should be used as the basis of a bargain with the domestic manufacturers. The power of this bargain might be as effective as the sudden release of unbridled market forces, in terms of the restructuring achieved. It would certainly be less painful in terms of social disruption.

Doc. B3-0246/90

The European Parliament,

- A. having regard to the communication on Community policy in the motor vehicle sector adopted by the Commission on 6 December 1989,
- B. whereas the motor vehicle manufacturers actually based in the Community are the world's biggest producers, employing over 1.8 million workers,
- C. whereas it is vital to establish by the end of 1992 a genuine internal market for motor vehicles capable of taking on foreign competition, particularly from Japan and South Korea,
 1. Calls on the Council to apply itself diligently to this issue in order to ensure that the deadline set for the completion of the Single Market is met;
 2. Calls on its appropriate committee to consider the problem as soon as possible, paying particular attention to the completion of technical harmonization, the establishment of fiscal harmonization, aid policy, research and vocational training, import restrictions still in force in five Member States on the basis of Article 115 of the EEC Treaty, a common trading policy, the rules on local sourcing and procedures for negotiations leading to restraint agreements for Japanese imports;
 3. Instructs its President to forward this resolution to the Council and Commission.

