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**EUROPEAN UNION
AUTOMOBILE INDUSTRY**

The Automobile Industry - Current Situation, Challenges, Strategy for the Future and Proposals for Action

(1) The Current Situation

The global picture

The European automobile industry is a key industry in the EU employing directly more than 1.8 million people in the supply and manufacturing chain. An additional 1.8 million people are employed in the distribution and repair sector. Indirectly the livelihood of many more citizens depend on the success of the industry. The industry accounts for nearly 2% of total GDP in the EU.

The automotive industry is a global industry dominated by three large trading areas - the EU, the US and Japan. Traditional EU manufacturers retain a dominant position on the EU market (84 % market share in 1993) but are present to only a small degree on the markets of Japan (EU exports amounted to only 2% of the total Japanese market in 1993) and the US (EU exports were only 2% of the US market in 1993).

The "Big Three" US car makers occupy 74% of a US market roughly equivalent in terms of size to the EU market but are barely present on the markets of Japan (less than 1% in 1993 with the bulk of the sales being sales by Japanese transplants). US exports to the EU are minimal (0.5% in 1993). It is important to note however that for the first time in many years the "Big Three" gained market share in the US market in 1993 (almost 2% gain principally at the expense of Japanese makes).

By contrast Japanese manufacturers dominate totally the market in Japan (supplying 97% of the market in 1993) and occupy significant market shares in the US (23% in 1993, a drop of 1% from 1992) and in the EU (11.4% in 1993). These large market shares are underpinned increasingly by a growing volume of transplant production. Thus out of the 11.4% market share in the EU, 3% were sales by transplants. By contrast EU investment in these two markets is relatively small; it is only within the last 2 years for example that two specialist EC constructors have announced their intent to build vehicles in the US. No EU car company produces in Japan. US car companies have of course been present in the EU market for many years (Ford and GM collectively supply about a quarter of the EU market) but have no manufacturing presence in Japan.

Reflecting these relative degrees of market penetration and despite the increasing importance of the transplants, Japan has run substantial trade surpluses with the EU and the US both in terms of vehicles as well as parts for repairing vehicles. The total automotive trade surplus with the EU is currently in the order of ECU 9 billion (some 30% of the total) whilst the US trade deficit in autos and auto parts with Japan is around \$30 billion annually.

The short-term market outlook in the EU

The current market environment in the EU is one of considerable difficulty. In 1993 the EU market for cars and light utility vehicles fell by 15.9% to 11.74 million vehicles, the largest year on year fall ever recorded. With the very strong concentration of EU production on the EU market the consequence of such a drastic downturn in Europe for the EU industry has been serious in terms of production cutbacks, stock build-up, capacity underutilisation, plant closures, widespread financial losses, short-time working and employment losses. Nearly 70,000 jobs were lost just in manufacturing in 1993 and in 1994 already announced plans by the producers suggest that there will be further losses of nearly 40,000 jobs leaving a total industry manufacturing employment of 900,000. The downturn in the market has been passed through to component suppliers whose prices have been under considerable pressure from manufacturers pressing to reduce the overall cost of production to reduce the break-even point in a declining market. In the short-term this market outlook will not substantially improve. There will be either stagnation or only very slow growth in the EU in 1994 with some variations by Member State. Growth is not expected to

resume before 1995 . This situation contrasts with the buoyant US market which grew by 8% in 1993 and which is forecast to expand further in 1994.

(2) The Challenges Ahead

Longer term growth prospects in the EU market are good and it is expected that by the year 2000 the annual market should rise to more than 15 million units. Improved economic conditions in Europe will underpin the expansion in the market. It has to be recognised, however, that with the rise in the vehicle parc environmental problems will increase. Indeed it cannot be overlooked that many urban areas in Europe have reached near saturation as far as car mobility is concerned. At the same time the consumer continues to choose the car as the optimum means of transport best suited to his needs and requires products of ever increasing quality which are safe, environmentally friendly, reliable, cheap to purchase and maintain.

In effect the desire for personal mobility has to be set against the nuisance of pollution and traffic congestion. This dilemma can only be resolved by the industry developing cleaner cars and by governments improving performance in spatial planning as well as improving infrastructures including enhanced traffic management through the use of telematics and innovative road pricing schemes. The management of these issues within the framework of an overall policy designed to support the competitiveness of the industry represents one of the key challenges to governments and industry.

The future of the EU industry is to a very large degree dependent on its ability to restructure in order to improve its competitiveness by reducing costs and improving the quality, innovativeness and environmental performance of its products and to meet the global competitive challenges ahead. These include the full opening up of the EU market by the end of 1999 to competition from Japanese companies which is mitigated, for the time being, by the sharp rise in the value of the yen, the arrival of new competitors on the scene notably from Korea and the revival of the US industry. Not only is the EU producers' home market under threat, but it is becoming increasingly difficult for them to compete successfully on third markets. This is all the more pertinent in view of the good growth prospects in new markets such as Eastern Europe, Latin America, Asia and China.

Compared to US and Japanese manufacturers, EU automobile producers are under-represented in markets other than their home markets. The ability to create and develop a strong position in these markets often requires local production capacity to be built up close to the market in question so as to be able to supply it with products adapted to its specific needs. Where the alternative to producing locally in such markets is to abandon it altogether, the development of such facilities can protect high value added jobs in the EU and increase the financial stability of its manufacturers.

Restructuring amongst the EU's component suppliers is equally vital, the more so in the light of the increasing degree of outsourcing of systems and component production to suppliers. In the car of the future it is likely that at least 60% of the value added will be supplied outside the manufacturer. A considerable handicap in terms of productivity has to be overcome (generally estimated to be in the region of 30%) in order that suppliers' are in a position to match the performance reached by those of its competitors notably in Japan. This restructuring process is only just getting underway in Europe.

Increasing competitiveness in terms of quality and cost of production requires improvements in the qualifications of the labour force of the companies concerned. This means adapting the labour force to new production systems and industrial changes through vocational training programmes designed to develop teamworking, multiskilling and flexibility. These new requirements apply throughout the production chain; a crucial element will be the development of close partnership relations between suppliers and manufacturers and between manufacturers and distributors aimed at creating new "lean" structures adapted to modern production and marketing. Such systems are dependent on the quality of human resources to manage and implement them.

For those who will be obliged to leave the industry retraining programmes need to be devised in order to offer the real prospect of employment in a different sector.

(3) Strategy

As set out in the White Paper on Growth, Competitiveness and Employment, new approaches need to be taken to promoting growth in a sustainable way responding to the twin challenges of achieving a higher intensity of employment and a lower intensity of the consumption of energy and natural resources while at the same time improving the quality of life through the development of new innovative products based on clean technologies. The best way for the automobile industry to integrate into this future environment is to develop competitive, clean and "intelligent" cars according to modern development, process and production methods supported by a highly qualified, multiskilled and flexible labour force. In essence the objective is to develop "Clean, lean-produced, intelligent, quality, value" cars for the year 2000 and beyond.

Such cars would be competitive world class products and would thereby permit EU manufacturers to regain the market share they once occupied on third markets notably the US. The industry must have as its objective market expansion world wide and not limited regional aims which are not sustainable in the long run.

The primary responsibility for effecting the changes necessary to fulfil these objectives rests with industry. The strategy requires the industry to take the lead in developing close collaborative relations within companies through cooperative working structures between managers, team leaders and workers. It also requires partnership relations along the whole supply chain - supplier/manufacturer, manufacturer/distributor, distributor/consumer. The implementation of such relationships is clearly the responsibility of the industry. The public authorities must create a supportive business environment based on open and competitive markets which will encourage manufacturers to undertake the necessary actions to improve their competitiveness. It is the role of the Union and its Member States to ensure that such an environment is achieved in accordance with Article 130 of the Maastricht Treaty. The Union can assist this process by facilitating the smooth functioning of the internal market in a competitive environment, by ensuring that horizontal policy instruments are applied to speed up the adjustment of the industry to industrial change, to encourage cooperation between undertakings and to foster joint research as well as a better exploitation of the results of such programmes.

The profound changes which are needed, first and foremost those in the sphere of human resources, require a relationship of partnership and trust between management and labour and the full attention of the authorities. Dialogue between the partners is both a democratic necessity and an efficient way of mobilising the entire automobile industry. According to Article 118 B of the Treaty, the Commission has the task of promoting this dialogue.

(4) Proposals

(a) Internal Market

The further development of the internal market will continue to have an important impact on the car industry's competitiveness. It is essential first of all that continuing vigilance be applied to ensure that no new barriers are introduced which would disrupt the operation of the internal market. Further efforts must be applied also to ensure that any remaining barriers, for example in the technical area, are eliminated. Finally new regulatory initiatives must give a sufficient lead-time to industry to enable it to forward plan and make the appropriate adjustments to comply with new rules.

(i) A competitive market

The provision of a competitive market environment is a precondition for creating competitive industries in the Union.

In its approach towards cooperation in the motor vehicles sector, the Commission takes into account the larger dimension of the internal market and the fact that the motor vehicle market has become a world market. Strict conditions may be applied to collaborative ventures amongst assemblers to avoid spill-over effects negative to competition in other areas of the business partners concerned. In the component sector the Commission takes full account of the fact that co-operation and concentration often have the

largest impact in terms of reducing costs and improving competitiveness in a key sector which is trailing its competitors in this domain.

State Aids continue to be decided upon under the Aid Framework for the motor vehicle industry. The Commission has approved the grant of aid where it has been shown that the aid has been in proportion to the problems it seeks to solve and that the aid is compatible with the overall interests of the Union. The Commission will continue to monitor the level of aid granted to the industry closely in order to ensure that investment risks remain with private operators and that the competitiveness of the Community industry is not distorted by unfair competition. It will ensure that all cases of notified aids are dealt with expeditiously.

(ii) The distribution system

Regulation 123/85 on selective and exclusive distribution has provided a structured framework against which motor vehicle distribution arrangements have been drawn up. The aim of the Regulation has been to establish a fair balance of interests between all actors in the distribution chain (manufacturers, distributors and parts producers) while ensuring that consumers benefit overall from the system.

The Commission has begun reviewing the functioning of the Regulation, which expires in June 1995, in conjunction with all interested parties. The Commission recognises that in order to provide important planning stability for investment in the distribution chain, which employs some 1.1 million people in the Community a decision should be reached quickly on how the Regulation should be applied in the future.

In its review, the Commission will take account of the following elements :-

- the extent to which the Regulation contributes to improving distribution and increasing inter and intra-brand competition;
- the progress in the functioning of the internal market in the automotive sector and the impact of the Regulation in this regard;
- the balance of interests between the different parties concerned (constructors/distributors; constructors/parts producers; consumers);
- the need to foster close partnership relations between all elements of the distribution chain in order to improve industrial efficiency and competitiveness in the automotive sector as a whole and preserve employment notably in small and medium sized enterprises;
- the contribution of the selective and exclusive distribution system to the efficient management of the arrangement between Japan and the EU on trade in automobiles; the efficient management of this arrangement must not be weakened in any way.

(iii) Harmonisation of taxes

A major step towards reducing divergences in taxation between Member States was made in 1993 when the implementation of a minimum VAT rate of 15% and the abolition of higher VAT rates came into effect. Remaining differences in taxes on motor vehicles are in certain cases substantial and it cannot be denied that these disparities affect the overall business environment for the car industry and have a negative impact on the internal market. The next stage, foreseen for 1994, will be to make proposals aimed at harmonising the structure of car circulation taxes to take account of environmental factors. At a later stage the Commission will examine the possibility of further harmonisation related to circulation taxes. As regards car registration taxes where the greatest disparities exist between the tax regimes of different Member States, the Commission will ensure that these taxes are compatible with the proper functioning of the internal market.

(iv) Improvement of Vehicle safety

The development of new passive and active standards for vehicle construction represent one of the key elements in the road safety system (driver, vehicle, infrastructure). New proposals aimed at improving the crashworthiness testing procedures of vehicles will be proposed by the Commission shortly, which will ensure that the highest attainable standards are put in place consistent with scientific and technical developments. The Commission is also anxious to see improvements in coach safety and will examine proposals, inter alia, with regard to the technical aspects of safety belts.

These proposals will be made within the framework of the European whole vehicle type approval system which has been in force since 1993 on an optional basis. The system becomes mandatory in 1996. The Commission will hold a conference at the end of 1994 to discuss experiences in the implementation of the system. Preparatory work is continuing with a view to setting up an information network for exchanging information between type approval authorities.

(v) Measures to promote environmental sustainability

The main environmental problems to be tackled are air pollution caused by car emissions, emissions of carbon dioxide stemming from the consumption of fuel, noise, congestion and other nuisances in urban areas and solid waste from the scrapping of used vehicles.

Most progress has been made on reducing car emissions. The Commission has taken the lead in setting advanced environmental standards. The approach has been to adopt the highest standards consistent with the technology available while ensuring a stable predictable policy environment for manufacturers to plan the introduction of cleaner cars. The latter is all the more important in view of the significant cost in new facilities and tooling for manufacturers arising from each stage to reduce car emissions. The draft directive on car emissions COM(92)572 which sets new standards from 1996 was the subject of a common position in the Council in December 1993. The proposals would lead to a reduction of 50% or more in most air polluting emissions compared to levels set in 1991.

A key innovation in this proposal is the setting down of a framework of possible measures to be taken in the year 2000 to reduce emissions. The cost effectiveness of each measure will be assessed prior to the formulation of the Commission's proposal which is due to be made at the end of 1994. In this context the Commission views very favourably the recently launched Auto-Oil research programme set up in conjunction with the automobile industry (ACEA) and the petroleum industry (EUROPIA) to examine the contribution that reformulated fuels and improved engine technologies could make to reducing emissions in the year 2000.

In 1994 the Commission will be putting forward proposals to reduce CO₂ emissions for motor vehicles as part of a strategy to reduce emissions from the transport sector as a whole. With respect to CO₂ emissions from motor vehicles a fiscal approach towards reducing such emissions would seem to be the most promising approach, combined perhaps with an upwards harmonisation of the minimum rates of fuel taxes. Proposals relating to noise measurement and tyre rolling noise will be made in 1994.

The Commission intends to launch a dialogue with the industry aimed at addressing the interaction between industrial policy and the Union's environmental objectives. In this context, an important element in meeting the environmental challenge will be for the car industry to concentrate its activities into products, systems and services more favourable to the environment, both for private use and for public transport.

(b) EC policy in the field of structural interventions and human resources

Interventions aimed at speeding up the adjustment of industry to structural changes are one of the key elements necessary to ensure the competitiveness of industry. For this reason the Union's horizontal structural policy instruments have a key role to play towards facilitating change and making it socially acceptable inter alia in the automobile industry and, in accordance with Article 123 of the Treaty, facilitating the adaptation of workers to industrial changes and to changes in production systems particularly through vocational training and retraining.

Since coming into existence, the European Regional Development Fund (ERDF) and the European Social Fund (ESF) have supported productive investment and vocational training to various degrees in industries concentrated in the regions eligible for such support. The automotive industry has been a beneficiary of such actions. Support has been given in the form of investment aid to encourage productive investment in major projects in the automobile sector located in Objective 1 regions⁽¹⁾; in addition investments in infrastructures directly related to production have helped to create a sound basis for industrial devel-

(1) Regions whose development is lagging behind.

opment. In Objective 2 areas⁽¹⁾, additional amounts have been used for direct investment support. In these regions, the Commission has also concentrated its efforts on improving the general competitive environment of industries. This category of expenditure includes the provision of services to enterprises, RTD and technical training. The industry has also benefitted from loans granted by the European Investment Bank⁽²⁾.

The resources available to the Union for structural interventions have been considerably enhanced; at a Union level more than ECU 154 billion has been set aside for structural interventions for 1994-1999.

A major innovation has been the adoption of horizontal policy instruments applicable throughout the Union aimed at anticipating the consequences of industrial change and changes in production systems of workers in employment. These are of particular relevance to the automobile industry most of whose vehicle and component manufacturing facilities are outside Objective 1 & 2 regions. In this context training and retraining measures should focus on two areas which are the keys to structural adjustment and competitiveness and which are highly important to the car industry.

- Training based on the introduction, use and development of new or improved production methods.
- Training reflecting the need for SMEs to adapt to new forms of co-operation with major companies, particularly with regard to subcontracting.

Three new instruments have been created which will be of particular relevance for the automobile sector in this context :-

- Objective 4 of the Structural Funds which is designed to adapt the workforce to structural change. Spending under Community Support Frameworks outside Objective 1 regions can reach more than ECU 2 billion in the 1994-9 period, where the majority of car and car component manufacturing plants are located. Significant further funding will be possible in Objective 1 regions.
- The new Community Initiative ADAPT, which will be concentrated on Objective 4 actions throughout the Union inter alia on cooperative actions across frontiers; the amount allocated to this initiative has been set at ECU 1.4 billion of which 1 billion is to be spent outside Objective 1 regions.
- The Community Initiative programme for SMEs (PME) (ECU 1 billion) which offers the possibility of reinforcing the capacity for actions in favour of small and medium sized enterprises in a networking approach. ECU 200 million has been set aside for regions outside Objective 1.

The principal aim of these new measures is to strengthen employment and job qualifications and to anticipate the consequences of industrial change and changes in production systems on workers in employment, and address future skill needs. Efforts by constructors and suppliers to work together could be of particular interest; these companies should take advantage of these important new possibilities to improve competitiveness. Furthermore the new measures reinforce actions in the fields of quality strategies, management and organisation, diffusion of RDt results, services to industries and improve the access of SMEs to finance and credit.

In parallel with these new measures the Community action programmes such as Comett and Force on vocational training run by the Task Force Human Resources have continued to facilitate the transfer of innovation and know-how on training in industry. It is now envisaged that a transnational network including automotive companies will be established in the framework of the Force-programme, to ensure a wider and more efficient dissemination on a multisectoral basis of the experiences gained from existing vocational training programmes.

Although the Community action programmes come to the end of their current life cycle at the end of 1994, a Commission Communication to the Council (COM(93)686 Final) has been made for a new

(1) Regions seriously affected by industrial decline.

(2) Over the last 5 years total amounts for direct investment support in objective 1 and 2 regions have been substantially in excess of ECU 300 million and loans granted by the EIB have been around ECU 600 million per annum. Under the Community Framework on State Aid to the Motor Vehicle Industry, Member States have granted ECU 5 billion since 1989.

action programme for the implementation of a Community vocational training policy (LEONARDO da Vinci). This will take forward the achievements of the current programmes in a single framework and will continue to provide opportunities for industry to innovate on a transnational basis in the field of training and human resources development.

(c) Research and Technological Development

The White Paper clearly identified that Research and Technological Development has a vital role to play in assuring the future competitiveness of EU industry. In addition it identified that a key element of a strategic microeconomic policy is a significant reorientation of basic research towards areas of particular relevance to the sustainable development model and secondly, the need to speed up the incorporation of the results of basic research into marketable innovations.

These considerations are of particular relevance to the automobile industry which is facing massive challenges in terms of improvements in systems to design, develop and produce new cars, the need to incorporate new materials and more electronic componentry in vehicles, the need for improvements in technology spurred by environmental and safety requirements, and the interaction with road and transport infrastructures.

It is essential therefore that public authorities support the research and development efforts of the industry; the Union for its part has a key role to play in stimulating joint research and technological development between companies within the industry as well as on a wider multisectoral basis. It is vital that these efforts do not lag behind those of Japan and the US. In the US for example, a high political priority has been given to building a prototype of a New Generation Vehicle (NGV). This consists of an industry-led sectoral effort to harness the resources of government (including defence laboratories) and industry through ad hoc research consortia carrying out work on technologies with short to long term applications⁽¹⁾. While European structures are different the research objectives in terms of producing a "clean, lean produced, intelligent" car are not. What is required is a clear focus of all the European actors involved.

The investment in research and development by the European automobile industry is immense; ECU 4 billion annually is directed at precompetitive and generic research. Under the Third Framework Programme around 550 million ECU, approximately 10% of the total amounts expended, were granted to projects with potential application or benefit to the EU automobile industry.

For the Fourth Framework Programme from 1994-8, which is in the course of being finalised in the Council and the European Parliament, the Commission has proposed a significant total funding package amounting to ECU 13.1 billion. The focus will remain on generic, precompetitive research with a multi-sectoral impact. However, there will be a greater selectivity and concentration of Community actions and a closer integration of Community and national activities including those of EUREKA. The programme also envisages improved access to programmes for SMEs, a feature of particular importance to the automobile industry when the component suppliers will be increasingly required to assume greater technological competences in the light of the restructuring of the value chain.

The automobile industry has proposed to concentrate on research on underlying technologies, on areas impacting the cost structure of the industry and on areas with a significant environmental impact. The following areas of the Fourth Framework Programme respond to these needs :-

The specific programme on **industrial technologies** will continue to be a major focus of research of value to industry with concentration on key technologies which industry has helped identify. It will address the conception of vehicles and the integration of systems, production, improvements in propulsive systems, the reduction of environmental impacts and increasing safety.

(1) The Commission is concerned in particular about access of EU companies to this programme, whether they be automobile constructors or component producers, and has pointed out to the US government and industry that US companies with a manufacturing and research base are active participants in EU framework programmes. It is in the interest of all parties that comparable and effective market access is guaranteed in this area.

The programme on clean and efficient energy technologies will also address questions of strategic interest for the future of car research in the field of the further reduction of polluting emissions by conventional engines/catalytic systems, which will be co-ordinated with the Auto-Oil industry project, and will also examine the evolution of fuel properties. Community research aimed at achieving a technological breakthrough in the critical components for electrically-propelled vehicles, such as batteries and fuel cells, will also receive increased Community funding.

Important benefits for the industry are expected from research in information technologies, in particular from activities in the field of computer-integrated manufacturing and engineering, open microprocessors and micro-electronics for motor vehicles (MICROMOBILE). Advanced Communication technologies and services can assist design, maintenance and other applications, which can improve the competitiveness of the automobile industry. Further support in developing "intelligent vehicles" will be given via Telematics which will also support the action of advanced Road Traffic Management Systems as a continuation of the DRIVE programme.

Due to the challenge for industrial and public partners to abate all kinds of pollution created by the use of road transport, the research programme on the environment, especially its part focused on technologies, is deemed to have significant applications for developing those technologies which have a direct bearing on the content of other specific programmes, such as the disposal of waste, recycling and the reduction of effluents and emissions in manufacturing processes.

Directly in the sphere of interest for the automobile industry, the programme for Research in the field of Transport will promote actions focused on the interface with other transport modes as well as the improvement of road transport safety, and will lead to a better integration of road transport in an efficient global transport system. The car industry has also shown interest in the targeted socio-economic programme.

It is important to ensure that the research needs, as perceived by the various industries, are channelled into planning and management of Community RTD activities in a coherent and efficient way. Dialogues with user-group panels, producers and component suppliers, enabling the broad spectrum of automotive research interests to be absorbed into the R&D content of specific programmes already occur but need to be enhanced further within appropriate user-friendly frameworks. To this end, the Commission will closely collaborate with specialised industrial panels in order to respond to problems identified by such groups with a view to ensuring a better utilisation of the specific research programmes.

Equally importantly, the Commission will pay particular attention to the fact that certain areas of research co-operation of interest to the automobile industry can cut across different activities of the framework programme, and can cause difficulties in applications and funding. The level of internal co-ordination and consultation between individual programmes of research is being enhanced significantly to ensure a more coherent approach towards integrated projects covering a number of different programmes.

It is envisaged that the next call for proposals in the framework of the new specific programmes will be published towards the end of 1994. This will ensure a continuity of support for the research efforts of the automobile industry into 1995.

(d) External Trade Policy Environment ("volet externe")

(i) EU Market

More than eighty different makes of car compete on the EU market reflecting its high degree of openness. This is reinforced by the policy of freedom of investment and circulation of goods within the EU, and finally by the wide extent of preferential access granted to a wide variety of countries.

Given the economic importance of the sector, and the openness of the market, it is particularly sensitive to disruptions arising from imports of finished or semi-finished products. Special attention therefore continues to be given by the Union to avoiding trade distortions or other actions which might disrupt the market.

- Avoidance of Unfair Practices

Dumping or unjustified subsidies can have serious injurious effects on EU producers. In the case of relatively low-cost producing countries, unfair pricing could add to the already existing pricing

advantage and would jeopardise the ability of the EU producers to compete at the lower end of the market. In February 1994 the General Affairs Council agreed measures defining the EU's import regime and new rules for commercial defense instruments. As a result of this decision the EU now has a set of instruments which are more efficient than before for dealing with unfair trade practices.

- Avoidance of Market Disruption

In the automobile sector an arrangement was achieved with Japan in July 1991. It aims in particular at the progressive opening of the EU market to Japanese exports of cars and LCVs over a transitional period ending on 31 December 1999, while avoiding the market disruptions that could result from such exports. The stability that follows from these conditions will be favourable to the restructuring of the industry, and thus to its aim of achieving adequate levels of international competitiveness by the end of 1999.

The co-operation of the Japanese authorities in monitoring their exports during the transitional period aims at ensuring, firstly, that the opening of the five previously restricted markets (France, Italy, Spain, Portugal, United Kingdom) will be conducted in a progressive way, taking into account the various market developments. Particularly important is the need for Japanese manufacturers to avoid any targeting of these specific markets through excessive concentration of the sales of their products manufactured in the EU. Secondly, the monitoring of exports to the Union is conducted in such a way that, while ensuring an adequate supply to non-restricted markets, the volume of sales of traditional EU producers will not be unduly affected. This will ensure that these producers are able during the transitional period to generate the cash flow required to pay for the restructuring and adaptation costs necessary to enhance their competitiveness in time for when the market is fully opened up at the end of the decade.

The consultations held so far between the Commission and MITI, in particular those held in 1993, show that reasonable compromises can be reached even in exceptionally unfavourable circumstances such as those presently prevailing in the car market. In September 1993 the forecast of Japanese exports to the EU for 1993 was revised to 980,000, a reduction of 18.4 % on the 1992 figure, on the basis of demand estimated to fall by 15.9 %, to 11.73 million units for 1993. These forecast figures exactly reflected the actual results in 1993. The overall market declined by 15.9 % to reach 11.739 million units, whilst Japanese exports fell by 18.4 % to the forecast figure of 980,000 units. Discussions on monitoring levels for 1994 have already begun; these are taking place against a backdrop of stagnation in demand in the EU.

While the Union has committed itself to the gradual opening of the EU market, the Commission will continue to ensure, over the whole transitional period, that the arrangement is applied integrally and in conformity with all its objectives.

At the same time, the Commission welcomes the fact that the move to a better integration of Japanese manufacturing plants into the Union is continuing. In addition there is no evidence of circumvention of the arrangement through exports to the EU of cars from plants in third countries which just assemble kits of parts originating in Japan.

Overall, the Commission believes that the criteria set out under the arrangement remain valid and that the commitment to open the EU market fully by the end of 1999 must be strictly adhered to.

- Market access in the EU

As a result of the Uruguay Round import duties in the EU for cars will be maintained at the present level of 10% whilst the tariff of 11 % on LCV's will be lowered by 1 percentage point only to reach 10%. These results are consistent with the objectives of the arrangement with Japan. EU tariffs on parts or components were reduced by about one third on average as part of the overall package deal. Overall the EU tariff offer in the automotive sector of around 5 % compares to an overall tariff reduction of 37.3 % by the EU.

(ii) Improving Access to Third Markets

With cyclical variations in the major European car markets becoming more pronounced, and the EU economies moving more and more in parallel, it is essential that the EU industry develops a world-wide sales basis which allows production cycles to be smoothed. For this reason comparable and effective

market access of EU-produced cars and automotive products to third markets are of the utmost importance to the future development of the industry.

Following the completion of the Uruguay Round negotiations in which a certain if limited progress was made, the Commission, in conjunction with Member States and industry should determine the most important market access barriers to EU exports and draw up a series of market opening objectives and a timetable for achieving them. Particular attention must be paid to the countries where EU car exports are decreasing or remain marginal (USA, Japan and South Korea) and to those countries with considerable growth potential (such as Malaysia, the Philippines and Indonesia) but where local industry continues to be protected through high import duties, local content policies or restrictive licensing systems. As regards China and Taiwan, who are not yet GATT members, the Union will negotiate market access including in the automobile sector, in the context of the negotiations for their GATT membership.

- **Major Third Markets Where EU Exports Are Decreasing or Remain Very Limited**

- Japan

Under the Trade Assessment Mechanism (TAM), the EU and Japan have agreed to analyse the causes of the relatively low performance on the Japanese markets of those EU products and services which are highly competitive on other markets. In the field of automotive products, the trade of engines and engine parts might offer some development potential, particularly in view of the current high value of the Yen.

Efforts will continue to be devoted to removing the remaining difficulties relating to regulations, technical standards and structural factors (eg zoning regulations). The aim is to reduce the cost of testing of EU cars destined for the Japanese market.

The EU-Japan dialogue on industrial policy and industrial co-operation launched in January 1993 also provides a useful framework for co-operation at industry level. The Commission considers it important to develop actively the participation of EU component manufacturers in design-in programmes and to develop co-operative links between the Japanese industry and EU component and car manufacturers.

The Commission made a formal démarche to the US authorities in 1993 expressing its concern over the risk that the latest round of negotiations between the US and Japan under the "framework agreement" could lead inter alia to discrimination against EU exports of cars and car components to Japan. These negotiations broke down in February when the US attempt to set quantitative targets to measure access to the Japanese car and car parts market was rejected by Japan. The EU has consistently opposed managed trade, market sharing and the use of unilateral trade instruments to achieve trade policy objectives. However, given the market access problem the European industry itself faces in the Japanese market there may now be an opportunity for a trilateral process between the EU, US and Japan to pool ideas with a view to finding a way forward towards opening the Japanese market to more competition in cars, car parts and other sectors.

- USA

EU exports of passenger cars to the United States, which, despite a severe reduction in market share, has remained the most important export market for EU manufacturers, have been handicapped by the triple influence of CAFE, the "gas-guzzler tax" and the luxury tax. Given that EU car producers are strong in the higher market segments, they are particularly affected by the cumulative impact of the taxes. In reality with a market share of less than 4 %, EU producers paid almost 100 % of the CAFE fines, 85 % of the gas guzzler tax and 70 % of the luxury tax. A GATT Panel has been set up to address these issues and will report its findings shortly. The Commission has so far also successfully intervened with the US authorities to prevent tariffs being raised on mini-vans.

- South Korea

The Commission has intervened with the South Korean authorities to demand an opening of the South Korean passenger car market to EU exports. The impact of relatively high tariffs, high internal taxes, including a surtax on cars with a retail price of over 70 million Won (these are only imported cars), and, above all, the government's "frugality campaign" which has turned into a "Buy Korean campaign", have marginalised import sales in South Korea. In 1992 only 532 EU-produced cars were exported to South Korea (as opposed, for example, to the 40,000 units exported to Taiwan in the same year). It is far from

certain that the reduction of South Korean tariffs applied to cars to 15 % in 1993 and to 10 % in 1994 will help to redress the situation. At present, the South Korean car industry is performing strongly; sales of Korean makes on the EU market amounted to about 90,000 in 1993, a market share of about 0.8%. In spite of this, the country still benefits from preferential treatment of its exports to the Union under the Generalised System of Preferences (GSP). Imports of cars from South Korea are subject to a half-yearly zero-duty quota which has been exhausted within days of being opened.

In the new GSP regime for the next ten years, which the Union will elaborate in the light of the conclusions of the Uruguay Round negotiations, the latest developments regarding Korea in particular will be taken into account.

- **Third Country Markets with Preferential Access**

- EFTA Countries

The bilateral Free Trade Agreements adopted in 1972 and 1973 strengthened economic relations between the EU and the EFTA countries. The EEA Agreement ensures the free circulation of motor vehicles according to the EEC Acquis from 1 January 1994 for most of the technical requirements, and from 1 January 1995 for the environmental requirements. EFTA countries will be, reciprocally, allowed to grant approvals according to Community requirements, and consultations in the decision-making processes will allow future requirements to cover the entire European Economic Area.

The enlargement negotiations with Sweden, Norway, Finland and Austria will lead to the full application of the EU acquis in these countries in due time, thereby creating fully harmonised conditions in Europe for the further expansion of the industry.

- Central and Eastern European Countries

The Europe Agreements which the EU has signed with Poland, Hungary, the Czech Republic and Slovakia, Bulgaria and Rumania provide inter alia for the establishment of free trade areas and co-operation in the field of standards and conformity assessment.

Pending ratification of the agreements, interim agreements have entered into force in 1992 in the case of Czechoslovakia, and in 1993 in the case of Rumania and Bulgaria. The agreements with Poland and Hungary entered into force in their entirety on 1 February 1994. They provide, in the case of the automotive sector, according to the country or the product, the dismantling of tariff barriers over a transitional period. In recognition of the crucial importance that trade plays in the transition of these countries to market economies, the Heads of State and government decided at the European Summit of June 1993, that the Union would dismantle all its tariffs on imports of most industrial products from these countries by 1 January 1995⁽¹⁾ instead of 1 January 1997 as originally provided for in the agreements⁽²⁾.

The various countries are already giving preferential treatment to certain EU automotive products and will achieve the total dismantling of their barriers by the year 2001 or 2002, pursuant to the agreements. The Commission will ensure that these measures are applied in practice, so that EU manufacturers can take full advantage of such preferences.

- Turkey

The Turkish market offers considerable potential, with demand for passenger cars estimated to be increasing by 30 % per annum to reach approximately 800,000 vehicles by 1997. Due to their tariff protection, imports by Turkey remain limited at the moment.

The customs union, foreseen in the Association Agreement of 1964 should be achieved by 1 January 1995. This implies the total dismantling of all Turkish tariff and non-tariff barriers to imports from the Union, and the adoption of the Common Customs Tariff.

(1) 1 January 1996 for Romania and Bulgaria.

(2) EU tariff barriers for the majority of industrial products had been deleted at the time of the entry into force of the agreements.

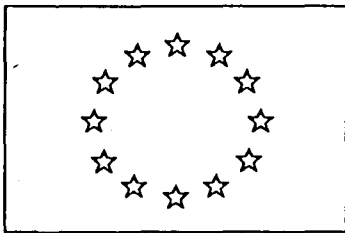
Whereas the Union has fulfilled all its obligations in conformity with the Protocol (the total elimination of customs duties), Turkish tariff protection in the automotive sector remains high. From 1 January 1994 important efforts have been made to reduce effective tariffs. This year, customs duties vary from 3 to 6 % and the Mass Housing Fund from 28 to 60 %. Whereas in 1993, there were no preferences for Community vehicles compared to vehicles from third countries, in 1994 preferences ranging from 5 to 7 % are now applicable; in the framework of the EC/Turkey Customs Union discussions, the Commission continues to press Turkey to pursue these efforts.

(5) Conclusion

The Commission believes that within the framework of open and competitive markets the contribution of the European Union to the structural adjustment process of the automobile industry aimed at improving its international competitiveness should consist of the following key elements :-

- using Structural policy instruments to facilitate adaptation of enterprises and their workforces to new production systems and to industrial changes;
- taking advantage of joint research and development programmes under the Fourth Framework Programme aimed at undertaking the basic research underpinning future technologies;
- employing renewed efforts to improve the smooth functioning of the internal market;
- removing market access barriers in principal markets and markets with high growth potential worldwide.

It goes without saying, however, that the primary responsibility to effect the changes necessary to improve its competitiveness remains with the industry itself.



COMMUNICATION

from the

EUROPEAN COMMISSION

to the

COUNCIL

and to the

EUROPEAN PARLIAMENT

on the

**EUROPEAN UNION
AUTOMOBILE INDUSTRY**

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A Introduction

The European automobile industry remains strong, and continues to develop technologically advanced and innovative products attractive to consumers.

However, the industry faces at present the effects of a combination of a severe downturn in demand and pressure from manufacturers with a lower cost base outside the EU, on the European market and on export markets. These pressures are compounded by low-cost competition from companies which have set up modern efficient factories in the EU.

The competitive threats come first and foremost from Japanese manufacturers, but also from producers in the United States and South Korea; this is forcing EU car and component manufacturers to increase productivity and cost-effectiveness along the supply, manufacturing and distribution chain. While this process will ultimately be beneficial for consumers and also for industry and its workforce, the implications for certain firms and for certain regions in the short to medium term are significant and cannot be ignored.

For the European automobile industry to emerge stronger from the current recession it is essential that:-

- new forms of production expertise are developed which can generate competitive advantages for Europe and which are in tune with European working models;
- better market penetration is achieved both in existing developed markets such as the US and Japan and also in those markets with the highest growth potential such as East Asia, Eastern Europe and Latin America;
- the continuing requirement of both business and personal users for mobility be served in the most effective way, bearing in mind the growing need for environmentally sound products and production processes. It is through satisfying new demand and through better satisfying existing demand that more value added can be created in the automobile chain. This implies greater recourse to technology and a better integration of distribution, manufacturing and supplier networks as well as a future-oriented and integrated approach to the development, production and use of the automobile and its impact on society as a whole.

In its Resolution of June 1992 on the European Motor Vehicle Industry, the Industry Council recognised the need to respond quickly to the challenges, while recognising that the main role in this process of structural adjustment should be played by industry. The Council acknowledged that, given the size and contribution of the industry to the GDP of nearly all EU countries⁽¹⁾, it was the European Union's role to provide a business environment conducive to smooth adjustment in applying horizontal policy measures, such as its research and development policy, and measures in the field of training and retraining, measures to develop the internal market and to improve the EU industry's access to third markets. At the same time there were important contributions to the restructuring process to be made by local, regional and national authorities.

(1) The value added produced in the car and car component industry, very narrowly defined, excluding, amongst others, tyre and car window production, accounts for approximately 1.6 % of Community GDP, and for as much as 3.1 % in Germany (excluding the new Länder), the Member State where this industry's share is the greatest.

This report responds to the Council's request that the Commission should report annually on the progress achieved in implementing such measures and on developments in the competitiveness of the industry.

B Development of Markets and Production

B.1 Market Evolution

- The EU Market

Whilst new passenger car registrations increased by 32 % between 1985 and 1990, the underlying demand trend in the EU started to weaken in 1990. The post-reunification boom in the Federal Republic helped to stabilise EU new registrations at 1990 levels, and 1991 and 1992 still showed very satisfactory results. In fact, the all-time high for passenger car and light commercial vehicle registrations in the EU was reached in 1992 (13.95 million new registrations of passenger cars and LCVs weighing less than five tonnes)⁽¹⁾.

In the middle of 1992, EU car demand turned sharply downwards. By October 1992, all car manufacturers were feeling the effects of what has been the first substantial decline in EU car demand since 1974. A series of special factors towards the end of 1992 boosted new registrations in the EU temporarily but could by no means reverse the trend. On the whole, the last quarter of 1992 showed all the signs of a market in distress, with considerable and costly promotional efforts being necessary to fight (unsuccessfully) against a piling up of stocks.

Market forecasts for the EU in 1993 had to be successively revised downwards. The actual results for 1993 show that the number of registrations in 1993 decreased by 15.9 % to reach 11.739 million units. This was the worst ever year-on-year evolution of the EU car market, worse even than the weakening of the market in the aftermath of the first oil crisis in 1974 (-14 %).

- Foreign Trade

EU exports of passenger cars and LCVs decreased from 2.3 million units in 1985 to 1.6 million units in 1992⁽²⁾. Exports were particularly weak in 1991 and 1992 compared to 1990, due in part to the fact that some EU and especially some German manufacturers had difficulty satisfying the sharply increased demand which followed German reunification. Weak car demand in some of the EU's major car markets (United States, Japan, Switzerland, Sweden) and discriminatory tax measures in the United States also reduced export possibilities. However, the main handicap for EU exports was the relative strength of the ECU against other currencies, first and foremost against the Yen. One ECU bought 151 Yen in 1988 and 1989, but 184 Yen in 1990; it was still worth 165 Yen on average in 1991 and 1992. The rise in value of the Yen from mid-1992 onwards did not significantly influence prices in that year. Not only did this make EU exports to Japan over this period difficult, but it also put EU manufacturers in a disadvantageous position on all their major export markets, as compared to their Japanese competitors.

(1) See Annex, Table 1.

(2) See Annex, Table 2(a).

The same factors that reduced the EU's export potential explain the increase in imports into the EU. Imports had declined from 2.2 million units to 1.3 million units in 1989, but rose to a much higher level in 1990 (1.7 million), continuing their rise in 1991 and 1992. In 1992, the EU imported 1.9 million cars and LCVs from third countries.

Overall, the EU became a net importer of passenger cars and LCVs in 1991, although in value terms the trade balance is still positive, by ECU 4.7 billion in 1992.

Even if the worsening of the trade balance in 1991-92 is largely due to special influences and cyclical factors, there are some reasons for concern:-

- the trade gap with Japan⁽¹⁾, which, although not increasing in volume terms, is widening in terms of value, reflecting the Japanese manufacturers' shift up market and their use of marketing parameters other than price;
- the emergence of South Korean manufacturers as strong, new competitors, with an EU market share of 0.3 % in 1991, 0.6 % in 1992 and 0.8 % in 1993⁽²⁾;
- the increase in the United States' car industry's competitiveness, which impacts on EU exports to the US, and the increasing orientation of US manufacturers towards EU markets, although this has, up to now, only been reflected as an increase of market share by 0.1 % on the 1992 figures to 0.5 % in 1993;
- the loss of market share on traditional EU car markets, mainly to Japanese manufacturers profiting from favourable exchange rates. With the generally high brand loyalty in the car market, consumers, once they have switched to foreign competitors' products, cannot easily be regained by EU manufacturers.
- As regards trade in car parts and components, there has been a consistent surplus; however this declined quite significantly in 1992, in part due to currency factors⁽³⁾. Provisional figures for the first half of 1993 indicate a stabilisation of the trade balance for 1993.

With some of the factors responsible for the unsatisfactory EU trade performance having improved, first provisional trade figures for 1993 show a very substantial improvement. There are good reasons to expect that in 1993 EU exports of cars and LCVs will be higher in unit terms than EU imports. In value terms the 1990 trade balance results would seem to be attainable.

B.2 Production and Capacity

Between 1985 and 1992, passenger car production increased by 22 % ⁽⁴⁾, from 10.4 million units to 12.7 million units approximately, having reached a record level of 12.9 million units in 1989⁽⁵⁾. An increasing contribution came from Japanese manufacturers' European operations (production up to approximately 270,000 units in 1992 from 80,000 units in 1989; in 1993, production has increased further to 450,000 units approximately).

(1) See Annex, Table 2(b).

(2) Trade with Community's main trade partners can be seen in Table 10 in the Annex.

(3) See Annex, Table 11.

(4) See Annex, Table 3.

(5) With the double counting of cars produced in one country and assembled in another, the precise production figure for the EU cannot be established.

The build up of stocks in 1992 has amplified the impact of declining car demand on production in 1993. It is expected that car production in the EU will have decreased by more than 15 % in 1993.

The effects of the decline in demand and production began to impact on the EU car manufacturers' profit situation in 1992. Higher marketing costs and the considerable costs of restructuring made profits drop throughout the industry. By the end of the year some manufacturers were effectively running at a loss. The situation has worsened further in 1993, with many car manufacturers experiencing heavy losses in the first half, without a reversal of the trend foreseeable for the second.

Given the current situation, questions regarding the long-term prospects of the car industry and the issue of over-capacity have come to the fore. Certainly with 1993 EU car production forecast to fall far below levels formerly achieved (perhaps 17 % down on the 1989 record level), the existence currently of a certain over capacity cannot be denied. Current capacity utilisation is significantly below levels sustainable with the existing cost structures. Since production figures are not likely to rise significantly in the short term, and some new production capacity is anticipated to come on stream, it follows that, on current projections, capacity under-utilisation could last for several years.

It is questionable, however, whether the present imbalance of the EU car production potential and internal and external demand is indicative of a long-term structural problem.

With regard to the demand side, the present slump in new registrations in the EU can be explained by the weakness of macro-economic indicators in 1993⁽¹⁾, and by the fact that, due to the extended period of strong car sales in the EU from 1984 to 1992, the car parc is relatively young, and thus replacement demand is not acting as a catalyst to reactivate the market. The long-term demand trend in the EU, however, remains positive, and forecasters expect average annual growth rates to be well above 4 % between 1993 and the year 2000⁽²⁾. The example of the UK market, which is already showing encouraging signs of expansion (albeit from a relatively low base) indicates that car demand will grow again once the economy picks up in the EU. Modest growth in most other EU markets is already expected for 1994. It is forecast to pick up from 1995 onwards.

It has to be recognised, however, that with the rise in the vehicle parc environmental problems will increase. Indeed it cannot be overlooked that many urban areas in Europe have reached near saturation as far as car mobility is concerned. At the same time the consumer continues to choose the car as the optimum means of transport best suited to his needs and requires products of ever increasing quality which are safe, reliable, cheap to purchase and maintain.

In effect the desire for personal mobility has to be set against the nuisance of pollution and traffic congestion. This dilemma can only be resolved by the industry developing cleaner cars and by governments improving infrastructures including enhanced traffic management through the use of telematics and innovative road pricing schemes. The management of these issues within the framework of an overall policy designed to support the competitiveness of the industry represents one of the key challenges to the industry.

The forecast growth of car demand in the EU coupled with an expected improvement in the EU trade balance in cars, influenced by the fact that the Yen no longer trades at an abnormally

(1) Thus the decline of the EU car market coincides with the first decline in real GDP in the Community since 1975.

(2) This has been confirmed by independent forecasters such as Marketing Systems and DRI.

low value⁽¹⁾, and also by the fact that the EU demand for Japanese makes will be satisfied more and more by cars produced in transplant factories has led to forecasts of production increasing more strongly than new registrations (well above 5 % annually as an average between 1993 and the year 2000 ⁽²⁾).

In the medium term, production figures for the EU should rise to new record levels.

On the capacity side, the possibilities for Japanese manufacturers to expand their world-wide production facilities, which were created by the extremely advantageous conditions for equity-linked financing through convertible bonds, are now very much restrained with the boom in Japanese share prices having come to an end. In fact, Japanese manufacturers have decided to cut capacity in Japan (Nissan's Zama plant will close in 1995, and Isuzu abandoned the production of passenger cars altogether in 1993). The capacity build-up by Japanese manufacturers in the EU is fully in accordance with, or even below, trends anticipated by the Commission in 1991.

With regard to the European manufacturers' capacity, some important projects have already added to the EU's production potential, or will do so once they are operational: Fiat's Melfi plant, the Volkswagen plant in Zwickau, the Ford/VW plant in Setubal, Seat's plant in Martorell, Opel's factory in Eisenach, and the Mercedes plant in Rastatt. Some plants have ceased production recently: Fiat in Desio and Chivasso and the Renault factory in Billancourt. Some non-EU plants which did however supply the EU market have also closed (Volvo in Kalma and Uddevalla) and some investment plans are at present being revised.

The present abnormally low capacity utilisation is in no way indicative of what the situation will look like once demand has recovered. Industry estimates, not surprisingly, vary on this point. ACEA (Association des Constructeurs Européen d'Automobiles) itself has forecast a small drop in capacity utilisation from 88% in 1992 to 85% in the year 2000. Even if it seems likely that capacity utilisation will be slightly lower on average in the future than in the past, the capacity which would be idle under normal market conditions will be necessary to react to cyclical upswings in the market. These will become more pronounced, with cyclical fluctuations in general becoming stronger in future due to the fact that some important EU markets approach saturation and that car sales become more and more dependant on replacement demand. EU car manufacturers will have to continue to lower their break-even point to be profitable particularly when demand is subdued.

EU car manufacturers will have to keep their regional diversification both inside and outside the Union, to reduce exposure to fluctuations in one country, and to profit from opportunities in markets where higher growth can be expected, or where (in developed markets) the EU industry could regain market share.

(1) Since August 1992, the Japanese currency has risen very considerably: in November 1993 one ECU bought 31 % less Yen than in August 1992 and 34 % less than in 1990. To achieve a given (Yen) price, a car would have to be sold 45 % or 51 % more expensively in Europe (ECU) than in 1992 or 1990 respectively.

Hourly labour costs in the EU car industry were ECU 18.77 in 1992 (weighted average calculated on the basis of VDA figures). Within the hypothesis of their being stable in local currency, they would amount to ECU 18.91 now, after the changes in the EMS. Japanese hourly labour costs were ECU 15.81 in 1992. Within the same hypothesis, they would now, after the appreciation of the Yen, amount to ECU 21.44 (see Annex, Table 4).

(2) According to Marketing Systems and DRI.

B.3 The Long-Term Trends

The European Union is, and will remain, the world's largest car producer and car market. However, the strongest growth in car demand must naturally be expected for markets which are lagging behind in motorisation (Eastern Europe, Latin America, Africa and Asia, with the exception of Japan⁽¹⁾). Annual car demand in these regions is forecast to amount to approximately 11 million units by the turn of the century, compared to 5.3 million at the beginning of the nineties, with the average annual growth rate thus being close to 8%. Car production is forecast to follow future car demand, with net trade flows between the major regions of the world declining⁽²⁾.

Compared to US and Japanese manufacturers, EU automobile producers are under-represented in markets other than their home markets. The ability to create and develop a strong position in these markets often requires local production capacity to be built up close to the market in question so as to be able to supply it with products adapted to its specific needs. Where the alternative to producing locally in such markets is to abandon it altogether, the development of such facilities can protect high value added jobs in the EU and increase the financial stability of its manufacturers.

Investment flows into these markets should not be distorted, however, by market access barriers having the effect of forcing investment into the markets in question. The removal of such barriers should be a major priority for the Union.

A certain relocation of car and component production with the aim of supplying EU markets from a low-cost production base (e.g. in Eastern Europe) is likely to be pursued further in the future. Such shifts in production help to maintain the overall competitiveness of EU manufacturers and in this sense must be judged positively. It has to be recognised however, that such trends reinforce the need to ensure that the EU's indigenous industrial base is also strengthened through restructuring efforts.

C The Reaction of Industry to Past and Future Challenges

C.1 Car Manufacturers

Recent monetary developments are helping to cushion some of the pressures to adjust in a period where these forces are being amplified by the downturn in the market. These factors have reduced the Japanese manufacturers' ability to use pricing policy as an instrument for increasing market share in Europe and on third markets⁽³⁾, and this should benefit EU manufacturers.

However, given the volatility of exchange rates, this increase in competitiveness is not a sound basis for the future development of the EU car industry. Notwithstanding this

(1) See Annex, Table 5.

(2) See Annex, Table 6.

(3) According to a statement made in June 1993 by a spokesman of a major Japanese car manufacturer, car exports from Japan to the EU are not profitable at the present rate of currency exchange.

favourable element, the EU car industry must continue the restructuring process already embarked upon. This is all the more true since Japanese manufacturers are reacting by relocating their production activities to other Far Eastern countries, and by rationalising production in Japanese plants.

European car manufacturers' restructuring efforts are aimed at creating a European lean production system which should be at least as productive and cost-efficient as the Japanese one. This implies investment in new plants and equipment, further automation and the optimisation of production, but also, and perhaps more importantly, changes to both the internal organisation of companies and to their dealings with their outside partners, component manufacturers and the sales network.

The restructuring of management functions towards smaller, independent, responsible cost and decision centres is considered a necessity for optimising the companies' internal organisations.

In this field, fewer job classifications and different work patterns associated with improvements in work organisation would allow a more rational allocation of human resources and a more efficient use of equipment, and in general more flexibility to improve adaptation to market needs.

Increased efforts in motivation, training and retraining are necessary (and are already being deployed by car manufacturers) to prepare their labour forces for new organisational structures, modern production methods and the higher responsibilities which will have to be assumed by lower levels of the hierarchies. Car manufacturers are aware that these efforts must also be extended to their sales networks, which is the most important channel of communication to the final customer.

With the high (and increasing) contribution of component suppliers to the value of a car, their role has become pivotal to the process of improving the EU car industry's competitiveness. Close collaborative relations between car assemblers and their suppliers are therefore absolutely necessary.

Long-term supplier-manufacturer relationships, comprising intensified co-operation, including joint organisation, joint work and co-operation on training development, joint quality management, joint research and the early participation of the supplier in the design and manufacturing process, should form the stable framework upon which the suppliers can develop higher performances. Car producers are increasingly willing to help in this process.

An important recent development is the start of a process aimed at mutual recognition of certain quality assurance standards for suppliers at European level, an exercise which should be widened urgently to include the whole Union. This will reduce costs for suppliers by avoiding costly repetitive audits by car makers, and will have pass-through benefits for producers and consumers in terms of reduced costs. In this context, the Commission has noted with some satisfaction the recent agreement between PSA, Renault and Volvo, FIEV and VDA on the mutual recognition of quality systems based on EN 29.000 (ISO 9000) standards.

Partnership in communications and logistics, necessary for Just-In-Time production, make proximity a great advantage for suppliers and car manufacturers. The trend for suppliers to move at least part of their operations closer to assembly plants will therefore continue and stem to some extent the shift of component production to low-cost countries.

It would be erroneous to concentrate efforts to increase competitiveness solely on the reduction of costs. The EU car industry must stay in the lead with regard to process and product technology. The fast penetration of electronic components and systems will remain a major driver of product differentiation in the car market. Electronics account for an

increasing value of the car, and are used in almost all its functions. A modern approach to the technologies required for motor vehicles, as with other means of transport, requires the development, integration and application of the most up-to-date technologies relating to conception, design and production. The approach must be multi-disciplinary, including also the development of new materials and the improvement of the efficiency of motive systems embedded in an improved communication infrastructure, thus contributing to the development and construction of the "intelligent vehicle". Continuous strong efforts in the field of research and development are a necessity both at an individual company's level and through enhanced joint research actions.

The fact that innovation management has not been as effective as it should have been is acknowledged by many car manufacturers. Excessively differentiated R&TD efforts within companies themselves have led to inefficient small series production of components and to complicated logistics and expensive stock holding. In addition, resources which could be better spent on responding to safety and environmental requirements for example, have been duplicated in parallel research actions.

The need for change to more co-operative behaviour through enhanced joint research efforts is fully recognised by the industry and increased efforts are being made to engage in collective action while at the same time respecting the continuing competitive interest of each individual manufacturer. A new culture of co-operation seems to be growing in this field. The industry has emphasised the need to gear R&D closely to market needs on the one hand, and to the requirements of cost-effective production on the other. The Framework Programme, along with EUREKA, has been particularly effective in encouraging the joint research approach.

The restructuring needs of the industry and progress in product and process technology require significant sums to be invested. Despite the sharp fall in profits referred to above in 1992 and 1993, in general the overall financial structure of most EU car manufacturers is still relatively sound and hence the capacity to finance new core investment programmes should not be a brake on restructuring.

C.2 Component Suppliers

Car component manufacturing has traditionally been oriented towards supplying manufacturers in the same country⁽¹⁾. International and even intra-Union trade in car components and parts was, and indeed still is to a great extent limited to the supply of spare parts for exported cars.

However, as the component suppliers evidently play a key role in ensuring the competitiveness of the car industry, and as the most competitive automotive assembler cannot be competitive unless his supplier base is equally competitive⁽²⁾, the international competitive pressure on car manufacturers is being transferred to the EU component manufacturers, triggering substantial structural change (reduction of the number of direct suppliers, who become suppliers of whole systems and have to organise their own supply chain; increasing openness for car manufacturers to purchase in other countries, etc.) and organisational changes (just-in-time, the full integration of suppliers into the assemblers' internal organisation, suppliers moving on-site, assembler quality management extended to suppliers).

(1) According to the VW group, 96 % of the suppliers to the Volkswagen brand (not the whole group) have traditionally been located in Germany.

(2) More than half of a car's ex-factory value is generated by the supply sector, and this figure will increase further in the future.

The contracting out of the design and assembly of complex components and whole systems to suppliers, which involves considerable organisational changes and important reductions in labour in the assembly plant, has increased considerably in the last five years. Big steps forward can only be made in the context of model changeovers, which suggests important developments in this field in the next few years.

The supply sector is benefiting from the increasing sophistication of motor vehicles, requiring an increased and more sophisticated (and thus higher value added), component input. This trend has been particularly beneficial to the suppliers of car electronics, a subsector which will also spearhead future innovations in the car industry.

Increasing awareness in the field of environmental and safety issues has contributed to this tendency. Increasing production volumes of better equipped cars, increased outsourcing by car manufacturers and higher numbers of EU-produced cars in use world-wide led total EU component production (original equipment and replacement demand) to increase from ECU 75 billion in 1988 to ECU 93 billion in 1992⁽¹⁾⁽²⁾. These factors will remain at the root of a further increase in EU component production, despite the tendency to shift the production of some components to threshold countries to follow EU car manufacturers' production operations there, or to set up low-cost production bases.

The employment effect of increasing productivity was compensated for by an increase in volume in car component production in the EU. The number of jobs in the industry therefore remained roughly stable (approximately 940,000 for the product groups covered between 1988 and 1992).

However, the decline in car demand and in car production in the Union in 1993, and the increasing competitive pressure on car manufacturers which is forcing them to reduce costs, will undoubtedly have extremely serious repercussions on the component suppliers. The significance of the cost of purchased components in the cost of a car explains the present tendency amongst car manufacturers to squeeze their suppliers' margins to gain in cost competitiveness immediately. Under these conditions, component manufacturers' profits, which were already unsatisfactory from 1990 to 1992, will decline further, and in many cases will turn negative.

According to an analysis by the Boston Consulting Group for the Commission, the value added per employee in Japan's component industry is still twice as high as in Germany or France, and this despite the fact that component prices are supposedly lower in Japan. If adjustments are made for differences in working hours, this gap is reduced from 100 % to 40-50 %, but it still underlines the need to accelerate restructuring. A recent McKinsey study suggests that, in 1990, value added per hour worked in the component industry was 63% higher in Japan than in Germany.

A tendency towards concentration is already obvious, and the internal market will reinforce the trend towards concentration of demand on the most efficient competitors. The necessary structural change, which implies a fundamental change in working methods and often a shift of location requires substantial financial resources. Not all component manufacturers - especially if they work as second-tier suppliers - have those. It also requires important improve-

(1) Boston Consulting Group : The component groups covered were : fuel systems, cooling systems, engine components, exhaust system transmission and other drivetrain, suspension, steering, body parts, interior trim, brakes and electric componentry for original and replacement demand of cars and LCVs. (See Annex, Table 7).

(2) Boston Consulting estimates EU demand for these component groups at 89 billion ECU (68 billion ECU for original equipment and 21 billion ECU for spare parts). (See Annex, Table 8).

ments with regard to organisational know-how and changes in attitude to facilitate the better collaboration and partnership between car manufacturers and their suppliers which is increasingly turning out to be the key to improved efficiency. Increased efforts in training must accompany this process.

C.3 Distributors

The motor vehicle distribution sector is composed of approximately 100,000 dealers or agents. It comprises mainly small independent businesses, often family-run, which, in total, represent about 1,100,000 jobs⁽¹⁾.

Distribution costs represent more than 25% of the selling price of a car, so it is important that automobile distribution contributes to improving the overall level of competitiveness of products, in the same way that the manufacturers and suppliers have done. This contribution should be made in the following ways:

- reducing distribution costs (in particular by setting up a computerised system for speedy responses to customer requirements, whilst at the same time minimising storage costs);
- encouraging better product brand name images by ensuring a better after-sales service.

Within this framework, it would appear essential that car manufacturers should try to establish with their distributors, as with their suppliers, sound partnerships based on the common goal of trying to find the best solutions to the problems associated with the structural changes in the distribution sector, such as training personnel for the new skills associated with the proliferation of electronic systems in cars.

A certain concentration and rationalisation of this sector should take place in the coming years. The average size of dealers can, in fact, be considered insufficient in an environment which is pushing the participants involved to find economies of scale.

C.4 The Impact on Labour Demand

Employment in the motor vehicle and component industry (NACE35) decreased by 14.3 % between 1980 and 1990⁽²⁾, with most of the job losses having taken place in the first half of the decade. Since 1990, job losses have been accelerating again, and 4 % of jobs were lost between 1990 and 1992. Under the pressure of the slump of the car markets, job cuts were particularly significant in the second half of 1992. Thus, in Germany, where pent-up needs to restructure are now coming to the fore with the post-reunification boom having run out of steam and the value of the DM having risen in the EMS, 5.4 % of the jobs in the car and car component industry were lost in the second half of 1992 alone. The shedding of another 5.5 % (40,000 jobs out of a total of 733,000) was planned for 1993. However, as car demand and profits in some companies have further deteriorated since these prospects were made public by VDA (Verband der Automobilindustrie) in February 1993, very substantial additional job cuts were announced (down to 600,000 in the medium term). In Italy and Spain, employment reduction in 1992 was more important still: between June 1992 and December

(1) Total employment in the repair and distribution sector is estimated at 1.8 million people. The figure of 1.1 million therefore refers to employees in the authorised distributors.

(2) See Annex, Table 9.

1992, employment decreased by 6.7 % in Italy, and by 14 % in Spain⁽¹⁾. Approximately 10,000 jobs have been created by Japanese transplant factories in Europe.

Jobs in the supply sector seem to be particularly threatened. The study on this sector, carried out by the Boston Consulting Group for the Commission, suggested that 400,000 of the 940,000 jobs in the industry would have to go to reduce the competitiveness gap between European and Japanese component manufacturers. For a number of methodological reasons, the Commission contests the validity of the scale of these findings⁽²⁾. It is however aware that the restructuring needs in the supply sector are particularly important.

The Commission and the industry are concerned that further job cuts will hit the highly-skilled, experienced workforce of the companies, given that the possibilities of early retirement schemes and the laying-off of marginal workers have already been largely exhausted.

The Commission is convinced that this process, although it will slow down with car demand stabilising and then picking up, cannot be reversed. It is the task of public authorities to facilitate the adjustment in the interests of all concerned. The aim should be to retain stable jobs in a prospering industry, or grant help to retrain those who must leave the industry for employment in other sectors through appropriate retraining schemes. The Union has a key role to play in this process through use of the structural funds.

In a high labour cost environment, it is necessary to develop a policy to encourage "non-physical" investment, (training, research, technical assistance), and to facilitate the adjustments in the interplay of suppliers and assemblers.

A strong emphasis should therefore be placed on anticipative training within companies so as to plan ahead for restructuring, and also on developing new ways of mastering technological change.

The "White Paper" on growth, competitiveness and employment⁽³⁾, deals with these issues in greater detail.

C.5 The Responsibility of the Social Partners

It is clear that if the restructuring of the car industry towards increased competitiveness were to fail, the economic and social consequences would be devastating.

It is also clear that the conditions required for restructuring to succeed with production costs being lowered and flexibility increased can only be created if those involved in car and component manufacturing, and above all management and the work force and their representatives, work together.

In fact, in the past, wages and supplementary fringe benefits granted to the workforce reached a very high level in the car industry. Thus, hourly labour costs in the car and

(1) The figures for Spain are drawn from a sample and must therefore be interpreted with care.

(2) Other studies suggest that the competitiveness gap is not as great as implied by the BCG report. An analysis by the EIU, for example, suggests that a competitiveness gap of 13-24 % separates EU suppliers from Japanese suppliers.

(3) COM(93)700 Final.

component industry exceed in most countries those in the manufacturing industry (e.g. in Belgium by 10% and in Germany and Spain by 20%)(1) (2).

More significantly, in most Union countries, the social partners did not fully exploit the whole range of flexible working patterns to optimise machine up-time and to allow appropriate reactions to changes in demand. The introduction of innovative working time patterns in the past few years, based on collective agreement and partnership with the workers' representatives, has shown that it was often not the rigidity of legislation, but the inadequacy of contracts, and a lack of imagination on both sides of industry, which prevented more flexible terms of employment.

The focus of the structural change needed now in human relations areas such as work organisation, flexibility, the delegation of responsibility, training and motivation, and the impact the changes will have as far as internal and external reconversion of the workforce is concerned, require coherence between the views of the social partners and a change in mentality. This necessitates partnership at all levels, in particular at regional or company level where such a relationship is needed to manage the change.

According to Article 118 B of the EC Treaty and Article 3 of the Agreement on Social Policy annexed to the Treaty on European Union, the Commission has the task of promoting a dialogue between the social partners in order to facilitate their mutual understanding and concerted action. It is for this reason, but also in response to a request in the European Parliament's report on the car industry (Rapporteur: Ms. C. Tongue, MEP) that the Commission, together with the European Parliament, is organising a Forum on the European Automobile Industry, which will take place on the first of March 1994.

Representatives of all parties concerned by the structural change in the car industry (car and component manufacturers, labour representatives, local and regional authorities) and scientists in the field of labour relations, work organisation, regional policy and transport will be invited to the Forum to express their views on the direction of EU policy for the car industry in the future.

The Commission has made its position clear on a number of these issues in its "White Paper" on growth, competitiveness and employment.

D Improvement of the Business Environment - The Union's Response

D.1 The Completion of the Internal Market.

The further development of the internal market will continue to have an important impact on the car industry's competitiveness. It is essential first of all that continuing vigilance be applied to ensure that no new barriers are introduced which would disrupt the operation of the internal market. Further efforts must be applied also to ensure that any remaining barriers, for

(1) Eurostat: The figures for Germany, Spain, Belgium and UK refer to 1991. For France: 1988.

(2) However, a comparison of labour costs including social costs vis-à-vis the USA and Japan shows that this factor cannot be held fully responsible for the handicaps from which the European car industry is suffering at present.

example in the technical area, are eliminated. Finally new regulatory initiatives must give a sufficient lead-time to industry to enable it forward plan and make the appropriate adjustments to comply with new rules.

Since the Communication COM (92) 166 Final of May 1992, progress has been made or action is under way in several policy fields towards the completion of the internal market for cars and car parts:

- Following the adoption by the Council, on 31 March 1992, of the three remaining directives necessary for the operation of EEC type approval, the harmonisation of technical requirements for passenger cars is now complete. Since 1 January 1993, EU type approval for these vehicles has been in force on an optional basis, prior to its mandatory application in 1996. Since then, manufacturers have only needed to take into account a single set of rules to market their products (whole vehicles, or their parts) throughout the Union. A limited number of EU type approvals have already been granted. It is very important that manufacturers test the system between now and 1996 and that public authorities take the appropriate administrative measures to ensure that the system will function smoothly. Progress in both these areas has not been as fast as the Commission would have liked. With a view to ensuring the smooth functioning of the system, an information network needs to be set up between type approval authorities. Pilot studies in this area will be carried out in 1994 with a view to full system implementation in 1996.
- The main environmental problems to be tackled are noxious car emissions, and emissions of carbon dioxide stemming from the consumption of fuel, noise, congestion and other nuisances in urban areas and solid waste from the scrapping of used vehicles.

Most progress has been made on reducing car emissions. The Commission has taken the lead in setting advanced environmental standards. The approach has been to adopt the highest standards consistent with the technology available while ensuring and stable predictable policy environment for manufacturers to plan the introduction of cleaner cars. The latter is all the more important in view of the significant cost in new facilities and tooling for manufacturers arising from each stage to reduce car emissions. The draft directive on car emissions COM(92)572 which sets new standards from 1996 was the subject of a common position in the Council in December 1993. The proposals would lead to a reduction of about 50% in the emissions of most noxious pollutants from levels set in 1991.

A key innovation in this proposal is the setting down of a framework of possible measures to be taken in the year 2000 to reduce emissions. The cost effectiveness of each measure will be assessed prior to the formulation of the Commission's proposal which is due to be made at the end of 1994. In this context the Commission views very favourably the recently launched Auto-Oil research programme set up in conjunction with the automobile industry (ACEA) and the petroleum industry (EUROPIA) to examine the contribution that reformulated fuels and improved engine technologies could make to reducing emissions in the year 2000.

The Commission will continue to pay close attention to national legislation relating to fiscal incentives linked to the emission performance of cars to ensure that it is consistent with the provisions of the Treaty and Community Directives. The common position reached by the Council in December 1993 reaffirms the main elements of the framework for granting fiscal incentives which have been adopted in past directives. As regards the taking into account of emissions in the basis for calculating annual road circulation taxes, the Commission has clarified that incentive systems must be modulated on a continuously progressive scale and be based on the real emissions performance of each vehicle.

In 1994 the Commission will be putting forward proposals to reduce CO₂ emissions for motor vehicles as part of a strategy to reduce emissions from the transport sector as a whole. With respect to CO₂ emissions from motor vehicles a fiscal approach towards reducing such emissions would seem to be the most promising approach, combined perhaps with an upwards harmonisation of the minimum rates of fuel taxes. Further proposals to reduce noise will be made in 1994.

The Commission intends to launch a dialogue with the industry aimed at addressing the interaction between industrial policy and the Union's environmental objectives with all interested parties within the framework of consultation mechanisms already in place.

Any further delays in significantly improving the environmental performance of motor vehicles is all the less justified as already developed technologies allow for a major step forward. While this, by no means, implies that further research is not necessary, it must be ensured that available technologies are taken advantage of to the benefit of the environment as soon as possible.

The commitment of the Union to adopt, in the future, measures leading to a further substantial reduction of pollutant emissions from cars sets a challenge to the EU automobile industry to develop the future technologies required to meet this ambitious goal and to enhance its competitiveness in this key area.

- With regard to the passive and active safety of motor vehicles, the development of new standards for vehicle construction and the improvement of equipment and parts represent one of the three key elements in the road safety system (driver, vehicle, infrastructure). New proposals aimed at improving inter alia the braking and crashworthiness testing procedures of vehicles (side and frontal impact) will be proposed by the Commission shortly, which will ensure that the highest attainable standards are put in place consistent with scientific and technical developments. The Commission is also anxious to see improvements in coach safety and will examine proposals, inter alia, with regard to the technical aspects of safety belts. European producers should be at the forefront in developing the new technologies required to meet these new standards.
- A major step towards reducing divergences in taxation between Member States was made in 1993 when the implementation of a minimum VAT rate of 15% and the abolition of higher VAT rates came into effect. Remaining differences in taxes on motor vehicles are in certain cases substantial and it cannot be denied that these disparities affect the overall business environment for the car industry and have a negative impact on the internal market. The next stage, foreseen for 1994, will be to make proposals aimed at harmonising the structure of car circulation taxes to take account of environmental factors. At a later stage the Commission will examine the possibility of further harmonisation related to circulation taxes. As regards car registration taxes where the greatest disparities exist between the tax regimes of different Member States, the Commission will ensure that these taxes are compatible with the proper functioning of the internal market.
- In its approach towards co-operation in the motor vehicles sector, the Commission takes into account the larger dimension of the internal market and the fact that the motor vehicle market has become a world market. It recognised in COM (92) 166 that co-operation and concentration in the components sector which often create the most sizeable effects in terms of cost reduction and competitiveness could be desirable. This has been reflected in the Commission's policy since then.

Similar considerations are also taken fully into account when the Commission analyses the impact of co-operation and concentration amongst assemblers. However, since the Commission is convinced that progress in the field of competitiveness can best be

achieved by ensuring that competition flourishes, the Ford/VW collaboration in Setubal towards the production of a car in an expanding niche-segment was approved only under strict conditions which will avoid a spill-over into other business areas of the partners concerned.

- As far as state aids are concerned, the Commission has decided on a number of important cases under the Aid Framework for the car industry⁽¹⁾. The Framework remains in application and serves also as a reference when establishing the Union's position on state aids cases in countries with whom the Union has entered into free-trade agreements.

It will continue to monitor the level of aid granted to the industry closely, in order to ensure that investment risks remain with private operators and that the competitiveness of the Community industry is not distorted by unfair competition. The Commission will ensure that all aid cases notified will be dealt with expeditiously.

- With regard to design protection, the Commission has submitted a draft directive and regulation to the Council setting a clear legal framework in this area. The proposals limit design protection on certain parts of complex products used for repair purposes, (e.g. car-components and car parts), to three years.
- Regulation 123/85 on selective and exclusive distribution has provided a structured framework against which motor vehicle distribution arrangements have been drawn up. The aim of the Regulation has been to establish a fair balance of interests between all actors in the distribution chain (manufacturers, distributors and parts producers) while ensuring that consumers benefit overall from the system.

The Commission has begun reviewing the functioning of the Regulation, which expires in June 1995, in conjunction with all interested parties. The Commission recognises that in order to provide important planning stability for investment in the distribution chain, which employs some 1.1 million people in the Community a decision should be reached quickly on how the Regulation should be applied in the future.

In its review, the Commission will take account of the following elements :-

- the extent to which the Regulation contributes to improving distribution and increasing inter and intra-brand competition;
- the progress in the functioning of the internal market in the automotive sector and the impact of the Regulation in this regard;
- the balance of interests between the different parties concerned (constructors/distributors; constructors/parts producers; consumers);
- the need to foster close partnership relations between all elements of the distribution chain in order to improve industrial efficiency and competitiveness in the automotive sector as a whole and preserve employment notably in small and medium sized enterprises.
- contribution of the selective and exclusive distribution system to the efficient management of the arrangement between Japan and the EU on trade in automobiles; the efficient management of this arrangement must not be weakened in any way.

⁽¹⁾ O.J. C 123 of 18 May 1989. The basic principle underlying the Framework is that aid granted, whatever its objective, is in proportion to the problems it seeks to solve, and that it is compatible with the overall interests of the Union.

D.2 EU Policy in the Field of Structural Interventions and Human Resources

Interventions aimed at speeding up the adjustment of industry to structural changes are one of the key elements necessary to ensure the competitiveness of industry. For this reason the Union's horizontal structural policy instruments have a key role to play towards facilitating change and making it socially acceptable inter alia in the automobile industry and, in accordance with Article 123 of the Treaty, facilitating the adaptation of workers to industrial changes and to changes in production systems particularly through vocational training and retraining.

Since coming into existence, the European Regional Development Fund (ERDF) and the European Social Fund (ESF) have supported productive investment and vocational training to various degrees in industries concentrated in the regions eligible for such support. The automotive industry has been a beneficiary of such actions. Support has been given in the form of investment aid to encourage productive investment in major projects in the automobile sector located in Objective 1 regions⁽¹⁾ ; in addition investments in infrastructures directly related to production have helped to create a sound basis for industrial development. In Objective 2 areas⁽²⁾ , additional amounts have been used for direct investment support. In these regions, the Commission has also concentrated its efforts on improving the general competitive environment of industries. This category of expenditure includes the provision of services to enterprises, RTD and technical training. The industry has also benefited from loans granted by the European Investment Bank⁽³⁾.

After the adoption of the financial perspectives for the Community budgets during the period 1993-1999, the recent revision of the Structural Funds' regulations and the implementation of the provisional cohesion fund instrument, more than ECU 154 billion, or almost one third of the total Community budget, has been set aside for structural interventions for 1994-1999.

The Commission is of the opinion that in the future, a balance has to be struck between the co-financing of productive investments in assisted regions (as in the past under Objectives 1 and 2) and assistance across the Union to factors flanking industrial investment. A particular emphasis, regardless of region, should be given to the development of human resources. For the Commission and both social partners, this is a key area of industrial policy. Measures in the field of training and retraining to adapt to industrial change and progress in production systems have the dual goal of enhancing the competitiveness of firms, whilst at the same time avoiding unemployment.

Three new instruments have been created which will be of particular relevance for the automobile sector in this context :-

- Objective 4 of the Structural Funds which is designed to adapt the workforce to structural change. Spending under Community Support Frameworks outside Objective 1 regions can reach more than ECU 2 billion in the 1994-9 period, where the majority of car and car component manufacturing plants are located. Significant further funding will be possible in Objective 1 regions.

(1) Regions whose development is lagging behind.

(2) Regions seriously affected by industrial decline.

(3) Over the last 5 years total amounts for direct investment support in objective 1 and 2 regions have been substantially in excess of ECU 300 million and loans granted by the EIB have been around ECU 600 million per annum. Under the Community Framework on State Aid to the Motor Vehicle Industry, Member States have granted aid amounting to ECU 5 billion since 1989.

- The new Community Initiative ADAPT, which will be concentrated on Objective 4 actions throughout the Union, inter alia on co-operative actions across frontiers; the amount allocated to this initiative has been set at ECU 1.4 billion, 1 billion of which is to be spent outside Objective 1 regions.
- The Community Initiative programme for SMEs (PME) (ECU 1 billion) which should open up possibilities of structural actions in favour of small and medium sized enterprises in a networking approach. ECU 200 million has been set aside for regions outside Objective 1.

Under the new Objective 4⁽¹⁾, the Social Fund will accompany the Community's structural adjustment policy and strengthen employment and job qualifications. The aim is to anticipate the consequences of industrial change and changes in production systems on workers in employment throughout the Community, and to address future skill needs with special emphasis on SMEs. Efforts by constructors and suppliers to work together could be of particular interest for potential assistance measures.

The forecasting of changes and an analysis of current deficiencies will be of particular importance. This diagnosis should form the basis for the design of training schemes and for the counselling of those setting up the structure, organisation and implementation of the different measures. The second step would involve the initiation of innovative pilot schemes.

The final aim is to minimise as far as possible the impact of the anticipated workforce reduction in the economic sectors and employment zones affected by industrial change. Measures, particularly retraining, to allow the affected workers to be retained in their jobs or to facilitate their reallocation to alternative employment opportunities will be implemented to achieve this.

It is the Commission's conviction that, under Objective 4, training and retraining measures should focus inter alia on two areas which are keys to structural adjustment and competitiveness, and which are highly important to the EU car industry. It will be for the Member States to bring forward proposals in this regard:

- Training based on the introduction, use and development of new or improved production methods.

New technologies, and in particular the progress of flexible automation have introduced new production concepts, transformed production structures and the nature and organisation of work. The technological changes have led to the development of only a few totally new job configurations, but existing jobs are developing progressively towards polyvalence. Team-working requires staff to be flexible, which can only be achieved if efforts in the field of ongoing training are increased and the willingness of the personnel to participate in such measures is raised.

New organisational techniques such as total quality control, flexible production systems and "Just-In-Time", new information technologies, changing needs of the market and of society, particularly with regard to environmental protection, the use of robots and of new materials are examples of themes which could be covered in such training.

- Training reflecting the need for SMEs to adapt to new forms of co-operation with major companies, particularly with regard to subcontracting.

⁽¹⁾ Facilitating the adaptation of workers to industrial changes and to changes in production systems.

The multiplication of links between assemblers and subcontractors, the shortening of product life cycles and diversification leading to small series production change the nature of qualification, logistics and management.

In this context, measures should focus on intensifying the co-operation in training between companies with common interests or which share common characteristics. This should also foster improved logistics management, technology transfer and the transfer of professional experience between large companies and small companies which are often their suppliers.

Objective 4 is based on a horizontal approach to tackling the question of restructuring and reconversion for industry as a whole. It is not limited to particular sectors or regions. However, in view of the changes taking place in the car industry and in view of the measures chosen, the workers, particularly those threatened with unemployment, who are affected by change in the car industry, and in particular in SMEs so far as component manufacturers are concerned, ought to be in a position to benefit.

It is for Member States to ensure a high specificity in the programmes under Objective 4 and consequently to give a high priority to the introduction of all these elements in the new Community Support Frameworks which would be implemented by means of integrated industrial development programmes.

In order to enhance the quality and coherence of actions under the European Social Fund (Objective 4) a programme of studies and technical assistance will also be undertaken.

The Commission has already organised a series of meetings of car and component manufacturers and the services concerned with the objective of gaining precise information about the industry's restructuring and training needs.

Moreover, on 16 February the Commission adopted draft guidelines for Community Initiatives under the Structural Funds for the 1994-99 period, which complement the actions of the Funds under the Community Support Frameworks.

Of particular interest to the car manufacturing industry will be the initiative ADAPT which focuses on employment, the adaptation of the workforce to industrial change and the improvement of the competitiveness of enterprises. The Commission proposes to allocate 1.4 billion ECU to this initiative, which over-and-above the CSFs will represent the transnational dimension of Objective 4. Concentration on measures and sectors will depend on the priorities agreed between the Commission and the Member States. In order to achieve higher added value for the Community in terms of improving the competitiveness of industry, employment stability and flexibility of the workforce, the priorities should be:

- promoting partnership and co-operation between enterprises, research centres, training providers and public authorities;
- developing networks and co-operation between producers, suppliers and customers involving both large firms and suppliers as well as SMEs;
- facilitating the adaptation of the workforce to evolving job requirements and linked to business strategy;
- creating new employment opportunities.

The definition of priorities and the preparation of relevant actions will be defined in partnership between Member States, regions and other competent actors and the Commission. The Commission has stressed the importance of a bottom-up approach, involving industry as well as economic and social partners.

The Commission considers that the priorities should include:

- the sectors which are confronted with common difficulties as a result of industrial changes throughout the Community (multisectoral and transnational approach);
- the companies in regions strongly affected by similar requirements of transformation (multisectoral, regional and transnational approach);
- the networks subcontractors and the SMEs strongly dependent on the structural adjustments of large firms (multisectoral, co-operational and transnational approach);
- the themes related to new production technologies, new production methods, total quality, the organisation of work, means of communication, systems of marketing and of distribution (thematic, multisectoral and transnational approach).

A second important initiative is the "SME" initiative which, it is proposed, should receive 1 billion ECU and which is intended to improve the competitiveness of SMEs, particularly small companies located in Objective 1 regions (regions whose development is lagging behind).

This initiative notably contains actions to stimulate investment in acquiring know-how and better organisational and technological capabilities. It can help SMEs adapt to their changing role as subcontractors for leading companies.

Effectiveness requires a concentration on a limited number of priority topics, as follows:

- to improve the production systems and the organisation of SMEs primarily by intangible investments concerning the adoption of a strategy of total quality, the promotion of technological innovations, the management and organisation and the use of modern communications and information systems;
- to take into account the environment and the rational use of energy;
- to encourage co-operation between research centres and SMEs, relating to the transfer and application of technology and so that SMEs are stimulated to innovate and to employ highly qualified personnel;
- to facilitate access to new markets, including public markets within the single market and markets in third countries;
- to develop co-operation and networks between suppliers of services to the SME, between lead firms and SME subcontractors, between SMEs, and finally between producers, suppliers and customers;
- to strengthen vocational qualifications within SMEs related to the other priority topics.

Both of these initiatives develop ideas announced in the White Paper on Growth, Employment and Competitiveness.

In parallel with the action through the Structural Funds, Community action programmes on vocational training run by the Task Force Human Resources have continued to facilitate the transfer of innovation and know-how on training in industry.

Some of these programmes, such as Comett, which promotes co-operation between universities and firms as regards training in the field of technology, and Force which promotes the development of continuing vocational training, have been met with great interest by car and component manufacturers. It is now envisaged that a transnational network including automotive companies will be established in the framework of the Force-programme, to ensure a wider and more efficient dissemination on a multisectoral basis of the experiences

gained from existing vocational training programmes, which should enhance and develop the impact these programmes have on the quality and quantity of training inter alia in the automotive industry.

In association with the industry, the network will also undertake new project development in the following areas:

- implementation of new working structures (production, administration and R&D);
- new learning methods on the job (self-qualification);
- implementation of continuous improvement processes;
- vocational training and retraining at shop floor/production line level;
- new roles of managers (all levels) with regard to new working structures and lean management;
- development of cross-cultural management training and increasing of language learning programmes.

The information gained on best practice throughout the industry would also serve in the definition of projects for which funding could be made available through Community (ESF) and national channels.

Thus the pump-priming or catalyser effect of Community action could be considerably increased.

The FORCE Programme has also recently completed an extensive survey of training in the automobile repair and distribution sector in all the Member States. The conclusions⁽¹⁾ stress the role of continuing training in promoting the competitiveness of the automobile sector as a whole and safeguarding the jobs of the repair and distribution employees. Continuing training and qualification is essential to ensure that this workforce will be able to perform the necessary service and repair tasks on advanced automobile systems and to satisfy customers, especially with regard to new concepts of work organisation, new tools and diagnostic systems, computerisation of administration and the increasing trend towards quality service.

Although the Community action programmes come to the end of their current life cycle at the end of 1994, a Commission Communication to the Council (COM(93)686 Final) has been made for a new action programme for the implementation of a Community vocational training policy (LEONARDO da Vinci). This will take forward the achievements of the current programmes in a single framework and will continue to provide opportunities for industry to innovate on a transnational basis in the field of training and human resources development.

The Commission's activities in the field of training and reconversion in the framework of the Social Fund and the Commission's training programmes are part of a much wider effort to foster a more employment-intensive growth pattern. The communication "Community wide Framework for Employment" (COM (93) 238 final) describes a number of areas in which the Commission intends to present analyses and suggestions for action, among others:

- adaptability at the work place, and the potential for developing new forms of employment;
- the development of new working time structures;
- investigating the scope for reducing labour costs and increasing employment intensity, notably by modifying the incidence of taxation systems.

(1) Institut Technik und Bildung ITB, Employment, Work and Training in the European Automobile Repair and Distribution Sector.

D.3 Research and Technological Development

Research and Technological Development has a vital role to play in assuring the future competitiveness of the EU automobile industry. While this industry has traditionally invested as much in R&TD as its principal competitors do and has even increased expenditure recently⁽¹⁾, it has to be acknowledged that the massive challenges facing the industry in terms of improvements in systems to design, develop and produce new cars, the need to incorporate new materials and more electronic componentry in vehicles, the need for improvements in technology spurred by environmental and safety requirements, and the interaction with road and transport infrastructures, make it evident that efforts cannot be single-handed. It is essential therefore that public authorities support the research and development efforts of the industry which are vital for ensuring its long-term future.

The Commission notes the increased efforts of other countries to promote the technological development in the car industry and with regard to its products, in particular the new programme announced by President Clinton to build a prototype of a New Generation Vehicle (NGV). This industry-led sectoral effort aims to harness the resources of government (including defence laboratories) and industry through ad hoc research consortia carrying out work on technologies with short to long term applications⁽²⁾. In the framework of its RTD policy, the Commission intends to promote the European car industry's joint research efforts which pursue largely the same objectives. However, the Union for its part aims at stimulating joint research and technological development both between companies within the industry as well as on a wider multisectoral basis to increase its economic impact. This is all the more important given the ever increasing range of technologies being used by the automobile industry, implying the need for more active involvement of other industrial sectors in joint research efforts.

The investment in research and development by the European automobile industry is immense, already exceeding 10 billion ECU annually of which 4 billion is directed at precompetitive and generic research.

The Commission's role in RTD gives significant added value in support of all this activity by encouraging and reinforcing co-operation and collaboration both within and outside the automotive sector. However, given that RTD policy in the Community is largely funded and managed at Member State level, these have the most important role in the development of the technology bases of the car industry and industry in general. Co-ordination of national and Community efforts is a prerequisite for a successful European R&TD strategy.

The European Automotive Industry has been a significant participant within the Third Framework Programme, which has reinforced the collaborative and co-operative nature of research in the current context of the interdisciplinary needs of science and technology. Not only automobile manufacturers but also the materials suppliers, equipment producers and users have benefited from the particular requirements of Community programmes in this sector.

(1) 1991/1990 = +9 %, 1992/1991 = +4 %.

(2) The Commission is concerned in particular about access of EU companies to this programme, whether they be automobile constructors or component producers, and has pointed out to the US government and industry that US companies with a manufacturing and research base are active participants in EU framework programmes. It is in the interest of all parties that comparable and effective market access is guaranteed in this area.

It is estimated that around 550 million ECU were granted to projects with potential application or benefit to the EU automobile industry in the Third Framework Programme and other EU research programmes. The industry was a particularly active user of the BRITE-EURAM, ESPRIT, DRIVE and JOULE programmes. Globally, about 10 % of the amounts expended under the Third Framework Programme were of direct or indirect interest to the automotive sector. The returns to the automotive industry of this sort of collaboration have emphasised the benefits of common objectives in R&D. The trend towards project groupings and targeted research actions will significantly add to the quality and technical efficiency of the required research.

The Commission presented its proposals for the 4th Framework Programme COM (93) 276 on Community actions in the field of Research and Technological Development to the Council and the Parliament in June 1993. The Commission has proposed that a total funding package amounting to ECU 13.1 billion (at current prices) be allocated to the framework programme to cover Community research in 1994-1998. The fields such as information and communication technologies, industrial technologies, environment, energy, transport policy and targeted socio-economic research provide ample and relevant opportunity for collaborative R&D projects. The accompanying measures associated with these programmes will specifically provide for the dissemination and application of the benefits of Community research, and the encouragement of the training and mobility of researchers.

The focus will remain on generic, precompetitive research with a multi-sectoral impact. However, there will be a greater selectivity and concentration of Community actions and a closer integration of Community and national activities including those of EUREKA. The programme also envisages improved access to programmes for SMEs, a feature of particular importance to the automobile industry when the component suppliers will be increasingly required to assume greater technological competences in the light of the restructuring of the value chain.

Amongst the research actions provided under the Fourth Framework Programme, the following will be of major interest to the Automobile Industry.

Important benefits for the industry are expected from research in information technologies, in particular from activities in the field of computer-integrated manufacturing and engineering, open microprocessors and micro-electronics for motor vehicles (MICROMOBILE). Advanced Communication technologies and services can assist design, maintenance and other applications, which can improve the competitiveness of the automobile industry. Further support in developing "intelligent vehicles" will be given via Telematics which will also support the action of advanced Road Traffic Management Systems as a continuation of the DRIVE programme. Major developments also include network infrastructure for information and communication services. Traffic information services in city centres especially, travel information on motorways, and communication with offices and homes are three distinct areas where public policy action for network infrastructure is needed and indeed some initiatives are already underway. These services will require new electronic equipment and work is already undertaken within the IT R&D programme.

The specific programme on industrial technologies will continue to be a major focus of research of value to industry, with the accent on generic approaches and with concentration on key technologies which industry has helped identify. The new action on technologies for transport means is a very important development from the point of view of the automotive industry and is designed to help European firms to be competitive in responding to the demand for flexible and efficient transport which meets the objectives of user- and environmental- friendliness. In particular, it will address the conception of vehicles and the integration of systems, production, improvements in propulsive systems, the reduction of environmental impacts and increasing safety. The strategic needs of the industry in terms of

material, design, engineering and manufacturing will be supported through individual projects or through the Targeted Research Actions (TRAs) on Environmentally Friendly Vehicle Technologies. In fact, the experience which was gained through the initial phase of TRAs will be expanded to include the automotive components industries. Moreover, through the Co-operative Research Action for Technology (CRAFT) initiatives for SMEs, the component suppliers will be able to benefit from research funding directly targeted for their restructuring needs. In addition, the new action on Technologies for Transport Means is directly aimed at providing user- and environmentally-friendly vehicle solutions which improve mobility and increase the social acceptability of means of transport.

The programme on clean and efficient energy technologies will also address questions of strategic interest for the future of car research in the field of the further reduction of polluting emissions by conventional engines/catalytic systems, which will be co-ordinated with the EPEFE⁽¹⁾ (Auto-Oil) industry project, and will also examine the evolution of fuel properties. In addition, this programme will provide significant support to European research and demonstrator activities for non-conventional engines, mainly for urban transport. Community research aimed at achieving a technological breakthrough in the critical components for electrically-propelled vehicles, such as batteries and fuel cells, will receive increased Community funding.

The industrial technologies programme will also support the development of ecologically acceptable solutions to the global manufacturing environmental dilemmas facing the automotive industry, such as clean manufacturing.

Due to the challenge for industrial and public partners to abate all kinds of pollution created by the use of road transport, the research programme on the environment, especially its part focused on technologies, is deemed to have significant applications for developing those technologies which have a direct bearing on the content of other specific programmes, such as the disposal of waste, recycling and the reduction of effluents and emissions in manufacturing processes.

Directly in the sphere of interest for the automobile industry, the programme for Research in the field of Transport, funded with ECU 280 million, will promote actions focused on the interface with other transport modes as well as the improvement of road transport safety, and will lead to a better integration of road transport in an efficient global transport system. The technologies developed will be subjected to a comprehensive assessment of their implications with a view to identifying the most appropriate applications.

The car industry has also shown interest in the targeted socio-economic programme to the extent that it will improve the links between education and training.

It is the overall objective of the various specific programmes, and the framework programme in general, to strengthen the scientific and technological bases of European industry and to encourage it to become more competitive at international level. Therefore, it is important to ensure that the research needs, as perceived by the various industries, are channelled into planning and management of Community RTD activities in a coherent and efficient way. Dialogues with user-group panels, producers and component suppliers, enabling the broad spectrum of automotive research interests to be absorbed into the R&D content of specific programmes already occur. These have formed the basis for consultations with and comments from the European car and component industry associations and from the Community's Industrial Research and Development Advisory Committee (IRDAC). Further methods to improve the dialogue with industry on R&D within appropriate, user-friendly frameworks are being devised. In particular, the Commission co-operates closely with

(1) European Programme on Emissions, Fuels and Engine Technologies.

specialised industry groups to address vertical problems by an optimal use of the specific programme.

In parallel with the considerable opportunities which will be available to the industry under the 4th Framework Programme, the automobile industry itself has recently re-examined its approach towards co-operation on joint research with a view to identifying key areas necessary to improve the competitiveness of the industry. The industry proposes to concentrate on research on underlying technologies, on areas impacting the cost structure of the industry and on areas with a significant environmental impact⁽¹⁾.

The areas identified by the industry are the following:-

Manufacturing efficiency

- harmonisation of criteria for components evaluation
- manufacturing processes
- vehicle development processes

Motor vehicle technology

- new technologies for emissions and fuel consumption reduction
- vehicle engine electronics
- light vehicle structures and materials
- electric/electronic components for electric/hybrid vehicles
- electric/hybrid vehicles themselves.

Most of the areas identified are covered by the Commission's proposals in the 4th Framework Programme. These broad programmes have to be translated into specific projects for potential funding. The industry has already begun this process by putting forward pilot projects within the framework of this structure. One of the most important of these projects concerns electric and electronic components for hybrid and electric cars. The areas on manufacturing and vehicle development process, emission technologies, light weight vehicles, manufacturing of electric and hybrid vehicles, as well as emerging technologies, e.g. ceramics, are covered under the TRA on Environmentally Friendly Vehicle Technologies.

While objectively the conditions are very favourable for a more intense use by the automobile industry of Community joint research programmes, concerns have been raised in industry circles with regard to the specific funding of R&D projects of interest to the automotive sector. The fact that the various different programmes have technical and financial subdivisions means that great attention has to be paid when "integrated" research applications are submitted in order to ensure a continuity of approach. The automobile industry has claimed that too much attention is given to the "innovativeness" of a project rather than its potential economic impact at industrial level. Greater emphasis on the value of definitional phases in complex projects has been called for, as well as support for projects such as AIT (Advanced Information Technology in Design and Manufacturing) which aims to shape future IT development by achieving industrial consensus on specifications, demonstration of advanced prototypes and through extensive consultation with the IT vendors.

The Commission has noted these concerns, some of which are general to all industries. In particular, the Commission accepts that certain areas of research co-operation of interest to the automobile industry can cut across different activities of the framework programme, and can cause difficulties in applications and funding. The Commission is increasing the level of internal co-ordination and consultation between individual programmes of research to ensure a more coherent approach towards integrated projects covering a number of different

⁽¹⁾ It goes without saying that the industry is of course interested in other areas of EU R&D activity, for example, telematics as applied for transport.

programmes. The increasing commonality of proposal selection criteria emphasising the economic and technological impact of individual research projects should help in this respect.

The industry has also raised concerns about the gap in funding between the 3rd and 4th framework programmes, a matter of considerable concern also to the Commission but not a matter under its control. However, it should be pointed out that in practice there is no real gap as far as the actual disbursement of funds is concerned since approximately 50 MECU of Commission funding will be committed for contracts starting in the first quarter of 1994. This amount of money comes from the budget of 1994 under the Third Framework Programme. The funding of projects for 1995 will be continued normally from the budget allocated to specific activities of the Fourth Framework Programme (1995-1998). It is envisaged that the next call for proposals in the framework of the new specific programmes will be published towards the end of 1994. This will ensure a continuity of support for the research efforts of the automobile industry into 1995.

D.4 External Trade Policy Environment

The EU market constitutes not only the biggest market in the World for motor vehicles in terms of volume and value, but also one with the highest degree of competition, with more than eighty different makes competing in this market.

Of the total 13.9 million cars and light commercial vehicles sold in the Union in 1992, 1.8 million were manufactured outside the Union. This great degree of openness of the EU market is also accentuated by the freedom of investment and circulation of goods within the EU, and finally by the wide extent of preferential access which has been agreed with or granted to a wide variety of countries.

This situation has two main consequences in terms of policy making. The first is that given the economic importance of the sector, and the openness of the market, it is particularly sensitive to disruptions arising from imports of finished or semi-finished products. Therefore special attention is given by the Union to avoiding trade distortions or other actions which might disrupt the market. The second is that comparable and effective market access must be requested from our partners in the World. The Union has been looking to this objective within the GATT Uruguay Round negotiations.

Given the importance of EU exports, it is also essential to keep under review automotive export performance and to examine expeditiously reasons underlying any weakening in performance, such as the recent case of declining EU exports to the US, South Korea or Japan⁽¹⁾.

1. Avoidance of Unfair Practices

As far as unfair practices are concerned, the Commission considers that dumping or unjustified subsidies can have serious injurious effects on EU producers. In the case of relatively low-cost producing countries, unfair pricing could add to the already existing pricing advantage and would jeopardise the ability of the EU producers to compete at the lower end of the market. It would also impede their export ability to third markets with high potential demand for this segment. On 8 February 1994, the General Affairs Council finally agreed measures that define the European Union's import regime and rules for commercial defence instruments. As a result of this decision, the European Union now has a set of rules that are more efficient than before to deal with unfair trade practices.

⁽¹⁾ See Annex, Tables 10 and 11.

As regards subsidies which distort trade, of particular concern are investment subsidies to plants which export a substantial part of their production. Linking subsidies to export commitments must absolutely be avoided. Also of concern are cases where non-justified state or local aids are granted to companies which export duty free to the Union; in this case, it is clear that there is a risk of increased injury to the EU industry. Free trade agreements with EFTA countries or Eastern and Central European countries provide for safeguard measures to be taken in such cases, and if need be the Commission will not hesitate to propose such action.

Also worth mentioning is the case where a country closes its market in order to give a particular advantage to its national producers, who benefit in turn from prices on the national market being much higher than on the world market. Such an unfair advantage, resulting in the practice of damaging dumped prices on export markets, can be increased by letting the national producer import parts with reduced customs duties or by giving him preferential interest rates. The cumulative effect of such elements might well explain the recent rapid development of exports to the EU coming from some Asian countries.

2. Avoidance of Market Disruption

The arrangement in the automobile sector was agreed with Japan in July 1991. It aims in particular at the progressive opening of the EU market to Japanese exports of cars and LCVs over a transitional period ending on 31 December 1999, while avoiding the market disruptions that could result from such exports. The stability that follows from these conditions will be favourable to the restructuring of the industry, and thus to its aim of achieving adequate levels of international competitiveness by the end of 1999.

The co-operation of the Japanese authorities in monitoring their exports during the transitional period aims at ensuring two objectives. First, the opening of the five previously restricted markets (France, Italy, Spain, Portugal, United Kingdom) shall be conducted in a progressive way, taking into account the various market developments. It is understood that Japanese manufacturers are paying specific attention to avoid any targeting of these specific markets through excessive concentration of the sales of their products manufactured in the EU. Second, the monitoring of exports to the Union as a whole will be conducted in such a way that, while ensuring an adequate supply to non-restricted markets, the volume of sales of traditional EU producers will not be unduly affected. These manufacturers will therefore draw an adequate benefit of the market growth and not suffer an improper decrease of their sales in the case of a market decline, so that on average they will maintain or increase their sales during the transitional period in order to generate the necessary cash flow to face the restructuring and adaptation costs.

The consultations held so far between the Commission and MITI, in particular those held in 1993, show that we can reach reasonable compromises, even in exceptionally unfavourable circumstances such as those presently prevailing in the car market. Following the consultations which ended in April 93, both sides estimated that demand for the whole year 1993 would decrease by 6.5 % and that exports should be forecast to decrease by 9.4 % as compared to 1992. As EU demand continued to fall the following months, and independent automotive forecasters modified their estimates, forecasting total demand in the EU to range between 11.5 and 12 million units for the whole year of 1993, the Commission requested MITI to re-open the consultations. The outcome of the discussions, held in September 1993 in Tokyo shows that the Union and Japan have been able to respond flexibly to unforeseen changes in demand. The Commission and MITI revised the forecast of exports to the EU to 980,000, a reduction of 18.4 % on the 1992 figure of 1,202 million on the basis of demand estimated to fall by 15.9 %, to 11.73 million units for 1993. These forecast figures exactly reflected the actual results in 1993.

The overall market declined by 15.9 % to reach 11.739 million units, whilst Japanese exports fell by 18.4 % to the forecast figure of 980.000 units.

While the Union has committed itself to the gradual opening of the EU market, the Commission will continue to ensure, over the whole transitional period, that the arrangement is applied integrally and in conformity with all its objectives.

At the same time, the Commission welcomes the fact that the move to a better integration of Japanese manufacturing plants into the Union is continuing. In addition there is no evidence of circumvention of the arrangement through exports to the EU of cars from plants in third countries which just assemble kits of parts originating in Japan.

Overall, the Commission believes that the criteria set out under the arrangement remains valid and that the commitment to open the EU market fully by the end of 1999 must be strictly adhered to.

3. Improving the Union's Industry's Access to Third Markets

It was stated earlier that EU car manufacturers must increase their presence in countries with particularly positive motorisation prospects. With cyclical variations in the major European car markets becoming more pronounced, and the EU economies moving more and more in parallel, it is also necessary to develop a world-wide sales basis which allows production cycles to be smoothed. For these two reasons, unhindered access of EU-produced cars and automotive products to third markets are of the utmost importance to the future development of the industry. The EU remains fully committed to requesting the dismantling of the non-tariff barriers which considerably limit our exports of both assembled vehicles and components. Particular attention must be paid to the countries where EU car exports are decreasing or remain marginal (USA, Japan and South Korea).

The European Commission, along with the Member States and European industry should, as a matter of priority, draw up a list of the most important market barriers to Community exports; this information should be used to draw up a series of market-opening objectives and a timetable for achieving them. In this respect the Commission delegations in third countries should work closely with Member States' embassies to increase the chances of success.

Results of the Uruguay Round Negotiations

Regarding market access to the Union's market in the field of tariffs, import duties for cars will be maintained at the present level of 10% and that of 11 % on LCV's will be lowered by 1 percentage point only to reach 10%. Regarding other commercial vehicles, in particular medium and heavy trucks, the Commission agreed only to a slight decrease from 22% to 19% as the US reduced their tariff on trucks but not the one on LCV's. These results are consistent with the objectives of the arrangement with Japan and the adjustment period which lasts until the end of 1999. Tariffs on parts or components were reduced by about one third on average as part of the overall package deal. Overall, for the automotive sector as a whole, (cars, trucks, buses, parts and components), the EU tariff offer of around 5 % compares to an overall tariff reduction of 37.3 % by the EU.

With regard to market access in developing countries, some, albeit limited progress was achieved; the Commission will however continue to pay particular attention to those countries with considerable potential (such as Malaysia, the Philippines and Indonesia), but where the local industry continues to be heavily protected through high import duties, high local content policies or restrictive licensing systems. As regards China and Taiwan, who are not yet GATT members, the Union will negotiate market access including in the

automobile sector, in the context of the negotiations for their GATT membership. The EU has however already raised the issue of market access through its bilateral contacts with China; the Commission in particular has expressed its serious concern about China's discrimination against the EU and in favour of the US as regards the elimination of quantitative restrictions to the import of automobile parts used by US joint ventures in China.

The European automobile industry itself has a major responsibility to draw the Commission's attention to trade barriers it faces in third countries' export markets and provide complete documentation to the Commission's representation on the problem encountered.

- Major Third Markets Where EU Exports Are Decreasing or Remain Very Limited

- USA

EU exports of passenger cars to the United States, which, despite a severe reduction in market share, has remained the most important export market for EU manufacturers⁽¹⁾, have been handicapped by the triple influence of CAFE, the "gas-guzzler tax" and the luxury tax. Given that EU car producers are particularly strong in the higher segments, they are particularly affected by the combined (and cumulative) impact of the taxes. In reality, with a market share of less than 4 %, EU producers paid almost 100 % of the CAFE fines, 85 % of the gas guzzler tax and 70 % of the luxury tax.

In the light of the evident discrimination against EU exports, in March 1993, the Union asked the contracting parties of the GATT to set up a panel under GATT Article XXIII.2, to examine whether, taken separately or jointly, the three US measures are contrary to Articles III.1, III.2, III.4 and III.5 of the GATT. The contracting parties agreed to the Commission's request, and a GATT panel has been convened and is taking evidence from the parties.

The Commission has so far also successfully intervened with the US authorities to avoid the reclassification of mini-vans as commercial vehicles and the increase of import duty from 2.5 % to 25 % which would have accompanied it.

- Japan

Under the Trade Assessment Mechanism (TAM), the EU and Japan have agreed to analyse the causes of the relatively low performance on the Japanese markets of those EU products and services which are highly competitive on other markets. In the field of automotive products, the trade of engines and engine parts might offer some development potential, particularly in view of the current high value of the Yen.

Efforts will continue to be devoted to removing the remaining difficulties relating to regulations and technical standards. The aim is to reduce the cost of testing of EU cars destined for the Japanese market.

The EU-Japan dialogue on industrial policy and industrial co-operation launched in January 1993 also provides a useful framework for co-operation at industry level. The Commission considers it important to develop actively the participation of EU component manufacturers in design-in programmes and to develop co-operative links between the Japanese industry and EU component and car manufacturers. In this respect, the Commission has asked the Japanese authorities to ensure that the EU component industry is not discriminated against to the benefit of the US industry as a consequence of the US-

(1) See Annex, Table 10.

Japan bilateral discussions. The EU welcomed the official denial made by the Japanese authorities that the Japanese government had made a commitment for Japanese car manufacturers based in the United States, or in Japan, to purchase car components of American origin with a total value of US\$ 19 billion in the 93/94 fiscal year. MITI officially opposed the US qualification of such a measure as "a pledge taken by the Japanese government". The Commission has requested a regular review of trade flows in order to confirm that no discrimination occurs.

Further representations to both the US and Japanese governments were made in December 1993 regarding the latest US-Japan discussions under the framework agreement concluded between these countries. The Commission made a formal démarche to the US authorities expressing its concern over the risk that this latest round of negotiations could lead inter alia to discrimination against EU exports of cars and car components to Japan. At the same time, the Commission indicated its willingness to engage in an appropriate dialogue with a view to ensuring that approaches aimed at ensuring effective market access to the Japanese market do not favour one party over another.

The breakdown of the US-Japan framework agreement discussions have important consequences for the European Union. The European Union has consistently expressed the view that it is against both managed trade, market sharing and the use of unilateral trade instruments to achieve those objectives; The U.S. attempt to set quantitative targets for access to the Japanese car and car parts markets has been rejected by Japan. It is extremely important that the European automobile industry is in no way prejudiced or discriminated by these negotiations. However, given the market access problem the European industry itself faces in the Japanese market, there may now be an opportunity for a trilateral process between the EU, U.S. and Japan to pool ideas to find a way forward in which the Japanese market be opened to more competition.

- South Korea

The Commission has intervened with the South Korean authorities to demand an opening of the South Korean passenger car market to EU exports. The impact of relatively high tariffs, high internal taxes, including a surtax on cars with a retail price of over 70 million Won (these are only imported cars), and, above all, the government's "frugality campaign" which has turned into a "Buy Korean campaign", have marginalised import sales in South Korea. In 1992 only 532 EU-produced cars were exported to South Korea (as opposed, for example, to the 40,000 units exported to Taiwan in the same year). It is far from certain that the reduction of South Korean tariffs applied to cars to 15 % in 1993 and to 10 % in 1994 will help to redress the situation. At present, the South Korean car industry is performing strongly, and exported 87,000 cars to the EU in 1992. In spite of this the country still benefits from preferential treatment of its exports to the Union under the Generalised System of Preferences.

Imports of cars from South Korea are subject to a half-yearly zero-duty quota which was reached as early as 4 January 1993; and imports of LCVs below 5 tons from South Korea are also under special surveillance and subject to a half-yearly zero-duty ceiling of ECU 2,316,000.

In the next regime for the next ten years, which the Union will elaborate in the light of the conclusions of the Uruguay Round negotiations, the latest developments regarding in particular South Korea will be taken into account.

- **Third Country Markets with Preferential Access**

- EFTA Countries

The bilateral Free Trade Agreements adopted in 1972 and 1973 strengthened economic relations between the EU and the EFTA countries. The principle difficulties remaining were the differences between existing technical regulations for motor vehicles, which remained even after the Union reinforced its environmental standards for cars in 1988. This problem will be solved by the EEA Agreement, which will ensure the free circulation of motor vehicles according to the EEC Acquis from 1 January 1994 for most of the technical requirements, and from 1 January 1995 for the environmental requirements. EFTA countries will be, reciprocally, allowed to grant approvals according to Community requirements, and consultations in the decision-making processes will allow future requirements to cover the entire European Economic Area.

The enlargement negotiations with Sweden, Norway, Finland and Austria will lead to the full application of the EU acquis in these countries in due time, thereby creating fully harmonised conditions in Europe for the further expansion of the industry.

- Central and Eastern European Countries

The Agreements which the EU has signed with Poland, Hungary, the Czech Republic and Slovakia, Bulgaria and Romania (the so-called Europe Agreements) aim at gradually integrating those countries in the EU in view of future membership, as concluded by the European Council in Copenhagen. The Europe Agreements provide for political dialogue, the establishment of free trade areas and comprehensive economic and financial co-operation, including measures of great interest to the car industry, such as co-operation in the field of standards and conformity assessment.

Pending ratification by all the countries concerned and by all the Member States, interim agreements have entered into force in 1992 in the case of Poland, Hungary and Czechoslovakia, and in 1993 in the case of Romania and Bulgaria. The agreements with Poland and Hungary have now been ratified by both the third countries concerned and the EU (i.e. the European Parliament and Member States) and therefore entered into force in their entirety on 1 February 1994. They provide, in the case of the automotive sector, according to the country or the product, the dismantling of tariff barriers over a transitional period. In recognition of the crucial importance that trade plays in the transition of these countries to market economies, the Heads of State and government decided at the European Summit of June 1993, that the Union would dismantle all its tariffs on imports of most industrial products from these countries by 1 January 1995⁽¹⁾ instead of 1 January 1997 as originally provided for in the agreements⁽²⁾.

The various countries are already giving preferential treatment to certain EU automotive products and will achieve the total dismantling of their barriers by the year 2001 or 2002, pursuant to the agreements. The Commission will ensure that these measures are applied in practice, so that EU manufacturers can take full advantage of such preferences.

- Turkey

The Turkish market offers considerable potential, with demand for passenger cars estimated to be increasing by 30 % per annum, and demand to reach approximately 800,000

(1) 1 January 1996 for Romania and Bulgaria.

(2) EU tariff barriers for the majority of industrial products had been deleted at the time of the entry into force of the agreements.

vehicles by 1997. Due to their tariff protection, imports by Turkey remain limited at the moment. However, EU exports of cars and LCVs to Turkey, although limited (less than 35,000 cars and LCVs in 1992), have trebled over the last four years and the forthcoming achievement of the customs union between the EU and Turkey will undoubtedly facilitate them.

The customs union, foreseen in the Association Agreement of 1964, and in its additional Protocol, should be achieved by 1 January 1995. It implies the total dismantling of all Turkish tariff and non-tariff barriers to imports from the Union, and the adoption of the Common Customs Tariff.

Whereas the Union has fulfilled all its obligations in conformity with the Protocol (the total elimination of customs duties), Turkish tariff protection in the automotive sector remains high. In 1993 customs duties varied from 9 to 15 %, and the "Mass Housing Fund" tax that is applied in particular to all imported vehicles varied from 30 to 91 %. From 1 January 1994 onwards, important efforts have been made. This year, customs duties vary from 3 to 6 % and the Mass Housing Fund from 28 to 60 %. Whereas in 1993, there were no preferences for Community vehicles compared to vehicles from third countries, in 1994 preferences ranging from 5 to 7 % are now applicable; in the framework of the EC/Turkey Customs Union discussions, the Commission continues to press Turkey to pursue these efforts.

In addition to the examination of the technical barriers that need to be dismantled to ensure free circulation between Turkey and the EU, it will also be necessary to examine the modalities that need to be agreed with Turkey regarding the link between exports from Japan to Turkey and the EU-Japan arrangement on automobiles.

· **World-Wide Technical Harmonisation**

In the negotiations on the revisions of the 1958 Geneva agreement (UN-ECE), the Commission follows the line of extending the regional scope of harmonisation of technical requirements. This will increase EU manufacturers' security in their world-wide operations and allow further economies of scale to be reaped. The procedure for the accession of the Union to the agreement is underway and should be achieved soon.

E Conclusions

The EU automobile industry is presently going through its severest test since the war. The need to adjust its production structures is coinciding with the necessity to invest heavily in the adaptation of its products at a time of unprecedented decline in car demand.

The biggest adjustment efforts are probably required from parts and components manufacturers. They have to adapt to important changes in demand patterns, an abrupt decline in demand, heavy pressure on their prices and increasing requirements by car manufacturers with regard to quality and timeliness. Closer partnership and collaboration between manufacturers and suppliers is a key to improving efficiency.

Many jobs in the car industry were lost in 1992. Lay-offs have increased in 1993 and will continue throughout 1994. Given the regional concentration of the car industry, this social problem also has a regional dimension to it, and, given the size and importance of the industry, becomes of national and Union concern. The impact of restructuring on labour demand will remain sizeable, but with EU car demand regaining and surpassing former levels, this impact should diminish over time.

It is the role of the public authorities, including the Union, to create the conditions for structural adjustment to be as successful and as smooth as possible.

On the Union level, the internal market is, and remains, the best catalyst for facilitating this change. Beyond Community action in the context of the harmonisation of technical requirements and the approximation of VAT, it is of particular importance to take the larger European dimension of the market into account in deciding upon concentrations and industrial co-operation proposals which often create the most sizeable effects in terms of cost-reduction and competitiveness.

As regards state aids the Commission will continue to examine vigilantly all proposals in the sector in accordance with the State Aid framework for the automobile industry and will ensure that any aid approved will be in proportion to the problems it seeks to solve and is comparable with the overall interests of the Union.

The Commission is examining what changes could be made to Regulation 123/85, which expires in June 1995, with a view to ensuring that the most efficient form of distribution will prevail in the Union, taking account of the need for a balance between the interests of the various parties involved and the contribution of the selective and exclusive distribution system to the efficient management of the arrangement between Japan and the EU on trade in automobiles; the efficient management of this arrangement must not be weakened in any way.

As regards environmental issues affecting the car industry, the Commission will ensure in its proposals to the Council and the European Parliament that the industry can develop new cleaner cars in a stable and predictable policy environment according to the highest possible standards consistent with the technologies available. Consistent with its past approach, the Commission will propose that fiscal incentives granted by Member States are harmonised within an appropriate Community framework whilst introducing, where appropriate, elements of flexibility, consistent with the Treaty. The need to reduce pollutant emissions further in the future presents a significant industrial challenge to the industry which will be a key element in ensuring its international competitiveness. With respect to measures to reduce CO₂ emissions from cars, which constitute a significant part of man-made CO₂ emissions in the EU, the Commission will come forward in 1994 with proposals to address this issue.

With regard to the passive and active safety of motor vehicles, new proposals will ensure that the highest standards are adopted in the Union consistent with scientific and technical developments. European producers should take a leading role in developing the relevant technologies to ensure compliance with the new standards.

The 4th framework programme for R&TD is in the process of being adopted. It was designed in such a way as to give the maximum benefit to industry as a whole, but specifically to smaller businesses. The profile of the programme, both in its thematic focus on fields of high importance to competitiveness, and the significant funds reserved for the Community's R&TD policy, should benefit the car and car component industry. The industry must continue to pursue its joint research efforts and come forward with innovative projects. The Commission for its part will improve programme management and improve internal co-ordination notably in relation to problems related to projects whose components fall in different R&TD programmes.

The regulations of the Community Structural Funds have been revised to include an instrument to facilitate structural change. This is mainly reflected in the newly defined Objective 4 of the Social Fund which will apply throughout the Union. With its focus on small- and medium-sized enterprises, and with its thematic focus on training accompanying the introduction of new production methods and training accompanying the development of closer co-operative links between assemblers and suppliers, it will help develop the performance of the car industry as a whole. Further action to accompany structural change has been taken in the

next generation of Community initiatives which have just been adopted by the Commission. Having put essential elements of the structure in place, it is now up to the industry and the Member States to act by preparing programmes which could be covered by these assistance measures.

Current activities involving the automobile industry (including manufacturers, suppliers and distributors) in the Community vocational training action programmes will be consolidated with a view to disseminating their results and developing a critical mass of new projects identified by the industry as a priority for transnational co-operation between firms.

Adoption by the Council of the draft decision implementing a new action programme for the development of a Community vocational policy (LEONARDO da Vinci) will respond to the industry's request for rationalised application procedures and increased funding.

EU producers should act to take advantage of new opportunities on higher growth third world markets.

Protectionist solutions to alleviate structural adjustment must be ruled out. It is in the best interests of the Union, its consumers and its labour force to respond to the challenges with increased competitiveness. To achieve this, exposure to world competition is a necessity. Access to the EU market for third country competitors should therefore not be hindered.

The Union should spearhead trade liberalisation, as it did with its commitment to open the EU market to Japanese car exports fully by 1999. However, trade liberalisation is not a one-way street, and the Union must continue to press for better access to third markets.

The European Parliament - European Commission Forum on the automobile industry which will take place on 1 March 1994 will help to focus the need for greater partnership, burden-sharing and co-operation between the main social partners which will be necessary to ensure that the industry successfully restructures in time for full competition in the year 2000.

A wider consultative process encompassing a multi-sectoral and multi-disciplinary approach to the industry and its future perspectives could also be initiated with a view to ensuring coherence in all facets of public policy affecting the industry whilst at the same time guaranteeing a stable regulatory environment against which the industry can develop new high value and technologically advanced products. This could lead to the adoption of more integrated policies and measures in the framework of a new approach to policy formulation encompassing not just traditional industrial measures, but also, for example, policies in the fields of environment, transport, infrastructure, traffic management and vehicle safety and testing.

The Commission believes that the combination of the internal and external measures outlined in this paper provide a supportive policy framework against which the industry should be able to restructure successfully. The industry should aggressively take advantage of the Community programmes designed to facilitate this process and which should contribute in an important way to ensuring that the industry emerges from the present crisis strengthened for the challenges ahead.



COMMUNICATION
on the
EUROPEAN UNION
AUTOMOBILE INDUSTRY

ANNEX

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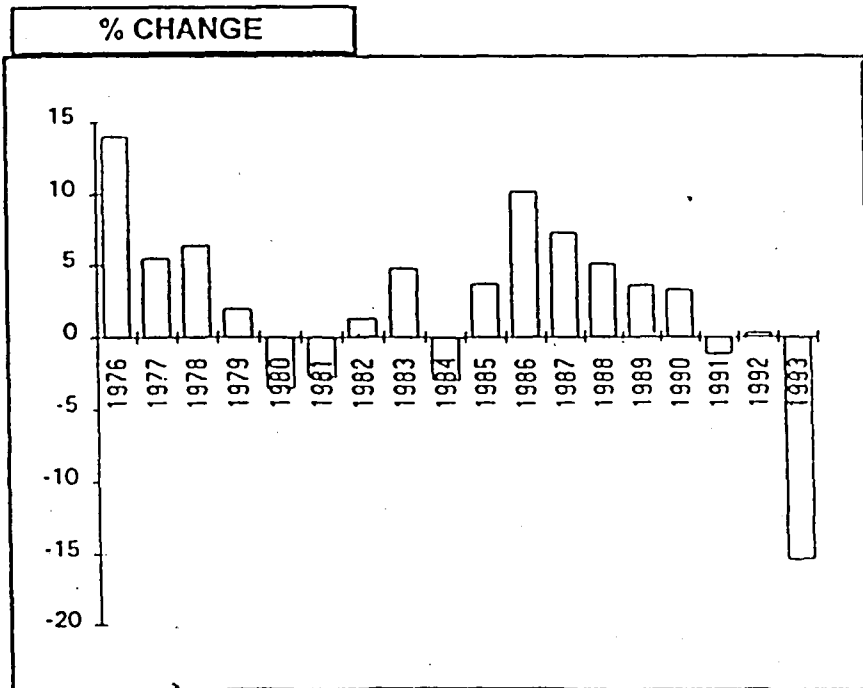
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TABLE 1

**New Passenger Car Registrations in
the 12 Member States of the EU⁽¹⁾**

(in 1000s)

		% change
1975	7326	-
1976	8350	14.0
1977	8808	5.5
1978	9367	6.4
1979	9554	2.0
1980	9211	-3.6
1981	8950	-2.8
1982	9061	1.3
1983	9496	4.8
1984	9214	-3.0
1985	9554	3.7
1986	10530	10.2
1987	11296	7.3
1988	11876	5.1
1989	12298	3.6
1990	12704	3.3
1991	12549	-1.2
1992	12591	0.3
1993 ⁽²⁾	10666	-15.4



Source: Marketing Systems

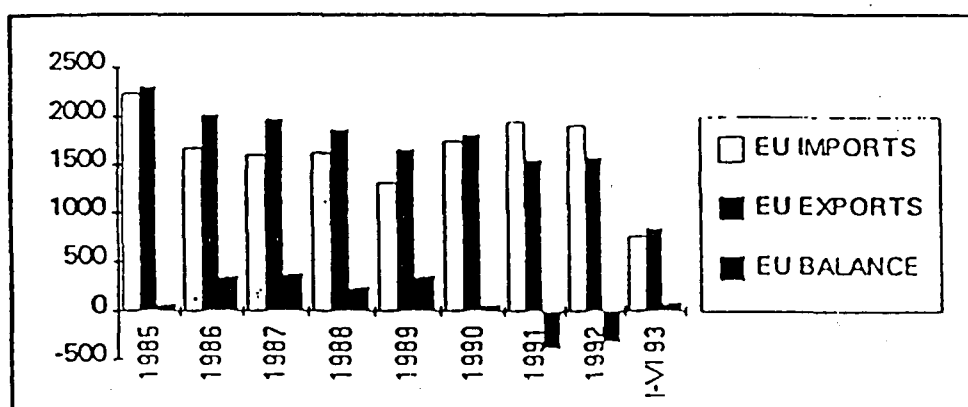
(1) Ex-GDR included from 1990 onwards.

(2) The market declined by 15.9% for cars and LCVs for total 1993.

TABLE 2 (a)

EU Trade With Extra-EU: Cars and LCVs
(1000 units)

Year	EU Imports	EU Exports	EU Balance
1985	2255	2315	80
1986	1673	2030	357
1987	1600	1982	382
1988	1623	1872	249
1989	1310	1668	358
1990	1747	1816	69
1991	1945	1556	-389
1992	1903	1576	-327
1992 - (1-6)	1013	803	-210
1993 - (1-6)	758	849	91



ECU millions

Year	EU Imports	EU Exports	EU Balance
1985	10026	23136	13110
1986	8642	22489	13847
1987	8866	23091	14225
1988	9584	20013	10429
1989	10370	21195	10825
1990	11313	22070	10757
1991	13731	18971	5240
1992	14644	19282	4638
1992 - (1-6)	7749	9527	1778
1993 - (1-6)	6229	10252	4023

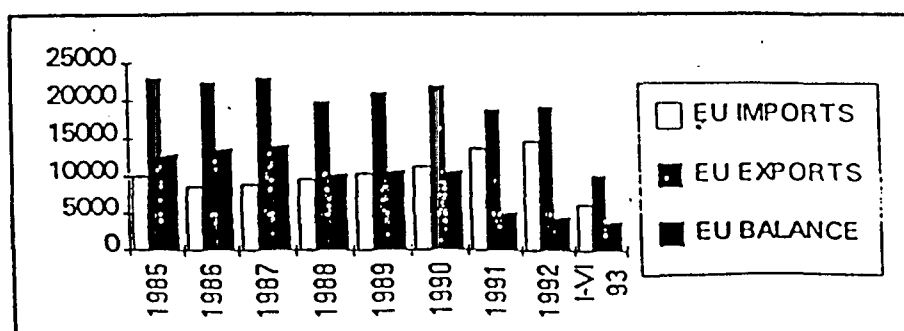
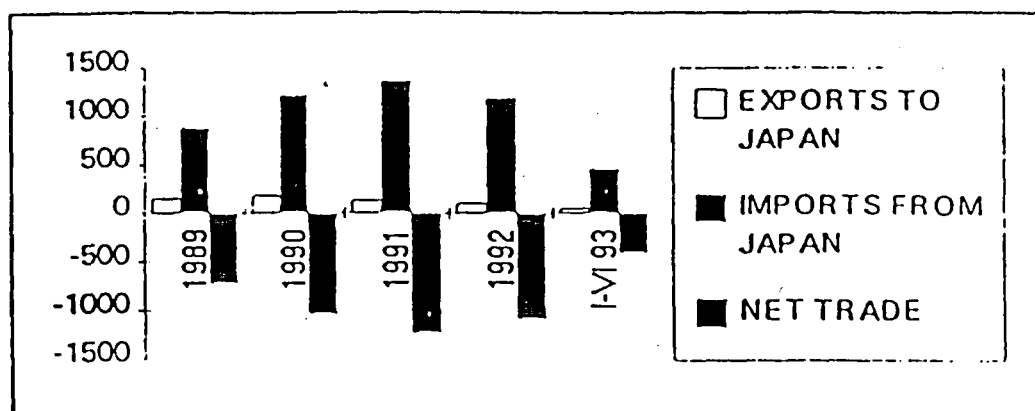


TABLE 2 (b)

Trade in New Passenger Cars and LCVs with Japan
(1000 units)

Year	Exports to Japan	Imports from Japan	Net Trade
1989	153	882	-729
1990	183	1232	-1049
1991	134	1374	-1240
1992	104	1198	-1094
1992 - (1-6)	53	646	-593
1993 - (1-6)	52	465	-413



Trade in New Passenger Cars and LCVs with Japan
(ECU millions)

Year	Exports to Japan	Imports from Japan	Net Trade
1989	2555	7505	-4950
1990	3426	7933	-4507
1991	3000	9448	-6448
1992	2233	9563	-7330
1992 - (1-6)	1192	5004	-3812
1993 - (1-6)	991	4051	-3060

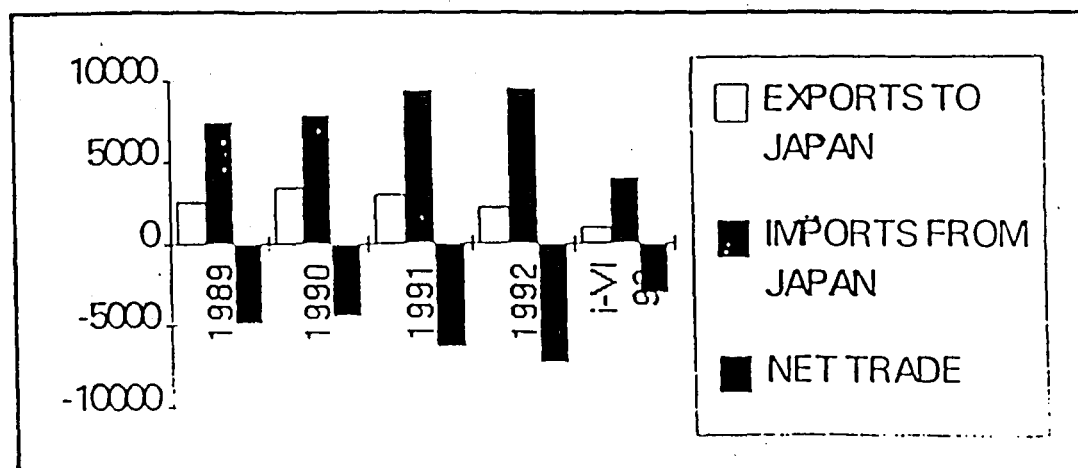
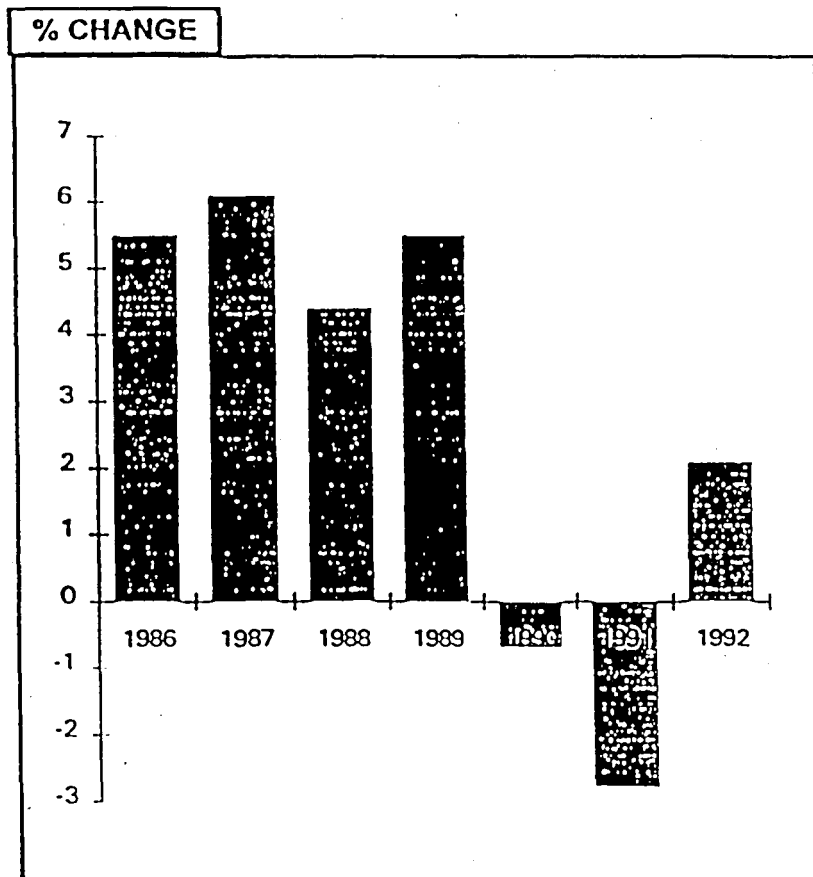


TABLE 3

**Production of Passenger Cars in
the 12 Member States of the EU⁽¹⁾**

(1000s)

		% change
1985	10883	-
1986	11483	5.5
1987	12182	6.1
1988	12723	4.4
1989	13422	5.5
1990	13333	-0.7
1991	12955	-2.8
1992	13230	+2.1
1993 ⁽²⁾	11230	-15.1



Source: Marketing Systems

(1) Not adjusted for double counting, which, towards the end of the period under consideration, amounted to circa 550,000 cars per year.

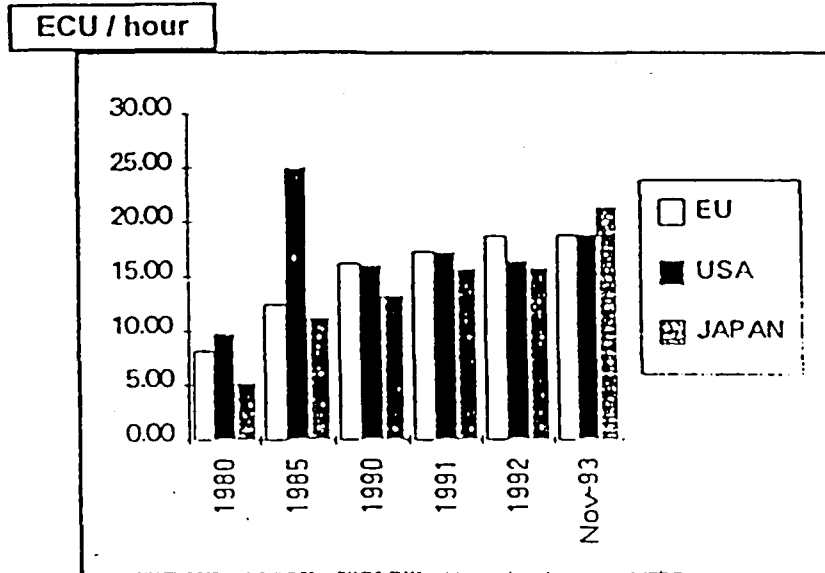
(2) Estimate.

TABLE 4

Labour Costs in the Car Industry^{(1) (2)}

ECU/hour

Year	European Union	USA	Japan
1980	8.16	9.84	5.25
1985	12.57	25.04	11.33
1990	16.28	16.14	13.35
1991	17.35	17.37	15.74
1992	18.77	16.54	15.86
11/1993	18.91	19.00	21.44



Source: Verband der Automobilindustrie

(1) Including social costs.

(2) 1980-1992: recalculated on the basis of VDA figures.

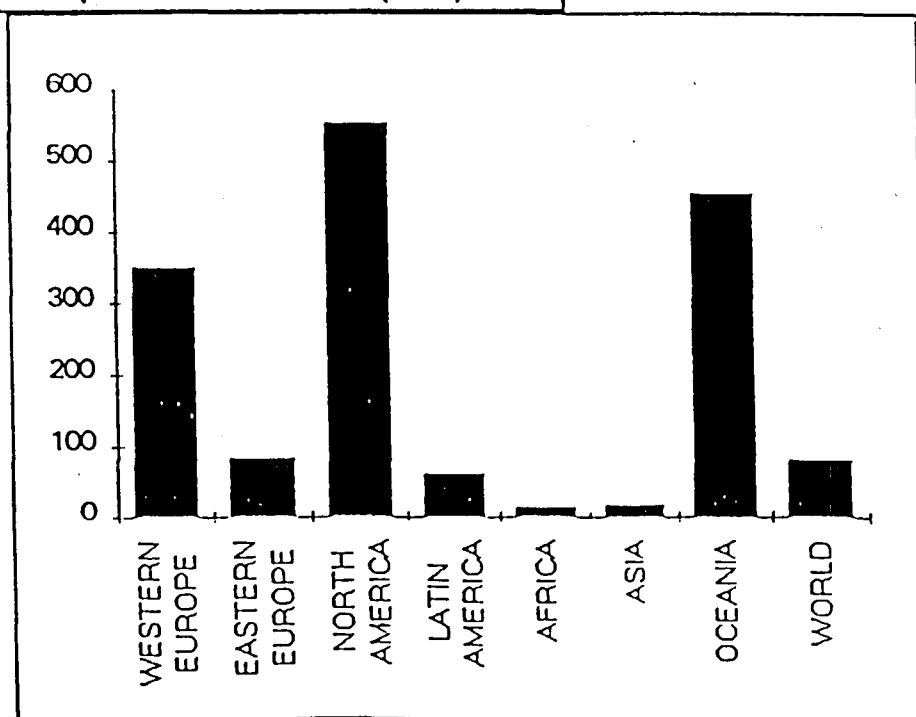
11/1993 calculated based on the hypothesis of labour costs in national currencies remaining unchanged on 1992.

TABLE 5

**Principal Components of Private Motorization
(Passenger Cars)**

Country	Cars per 1000 inhabitants (1992)	New registrations 1992 (1000s)	New registrations Average growth rate 1992-2002 (%)
Belgium	398	466	0.7
Denmark	309	85	5.3
Germany	465	3929	0.3
Greece	166	199	-1.0
Spain	320	979	3.4
France	416	2106	1.4
Ireland	*236	68	2.6
Italy	456	2375	0.1
Luxembourg	521	37	2.0
Netherlands	371	492	0.5
Portugal	182	275	2.7
United Kingdom	393	1594	3.8
Western Europe	352	13800	1.5
Eastern Europe	86	1400	9.9
North America	555	8900	1.9
Latin America	63	1500	5.7
Africa	15	300	8.8
Asia	19	7000	3.5
Oceania	455	500	1.8
World	83	34000	2.8

Cars per 1000 inhabitants (1992)



Source: Marketing Systems

TABLE 6

Supply and Demand of Passenger Cars Worldwide

(millions)

Regions	Years ⁽¹⁾	1982	1992	2002
Western Europe	NR	10.1	13.8	16.0
	P	10.3	13.7	16.5
	CR	1.02	0.99	1.03
Eastern Europe	NR	1.9	1.4	3.6
	P	2.2	1.8	3.7
	CR	1.16	1.29	1.03
Northern America	NR	8.7	8.9	10.7
	P	5.8	6.7	8.7
	CR	0.67	0.75	0.81
Latin America	NR	1.2	1.5	2.6
	P	1.2	1.9	3.0
	CR	1.0	1.27	1.15
Africa	NR	0.5	0.3	0.7
	P	0.2	0.2	0.4
	CR	0.4	0.67	0.57
Asia	NR	4.1	7.0	9.9
	P	7.2	11.4	13.5
	CR	1.76	1.63	1.36
Oceania	NR	0.5	0.5	0.6
	P	0.3	0.2	0.3
	CR	0.6	0.4	0.5
89 Analysed countries	NR	27.1	33.4	44.1
	P	27.3	35.9	46.1
	CR	1.01	1.07	1.04
Others	NR	0.3	0.6	0.8
	P	0.0	0.0	0.0
World	NR	27.4	34.0	44.9
	P	27.3	35.9	46.1

Source: Marketing Systems.⁽²⁾

(1) NR = new registrations, P = production, CR = coverage rate (P/NR).

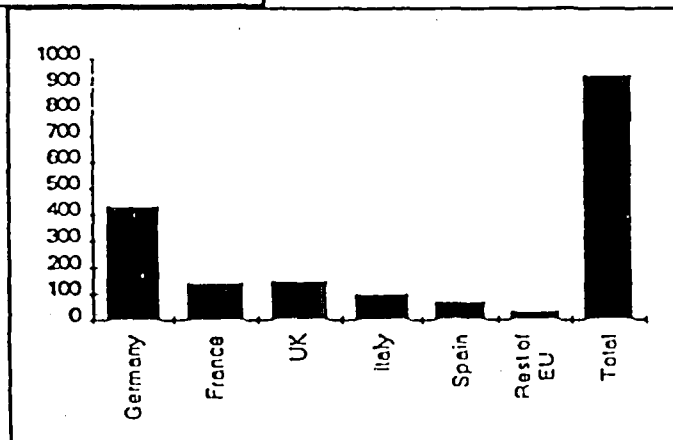
(2) Inconsistencies in international new registration and production statistics mean that NR ≠ P.

TABLE 7

**EU Automotive Components Industry
Industry Sizing 1992**

Country	Production		Value Added		Employment	
	ECU bn	%	ECU bn	%	1000s	%
Germany	43.6	47	20.9	53	436	46
France	18	19	6.1	15	144	15
UK	10.8	12	4.4	11	150	16
Italy	10.2	11	3.5	9	101	11
Spain	6.9	7	3.1	8	73	8
Rest of EU	3.3	4	2.1	4	36	4
Total	92.7	100	40.1	100	940	100

1000 employees



Total Component Demand

Country	ECU bn	%
Germany	39.3	44
France	15.9	18
UK	11.2	13
Italy	9.4	11
Spain	8.2	9
Rest of EU	4.8	5
Total	88.8	100

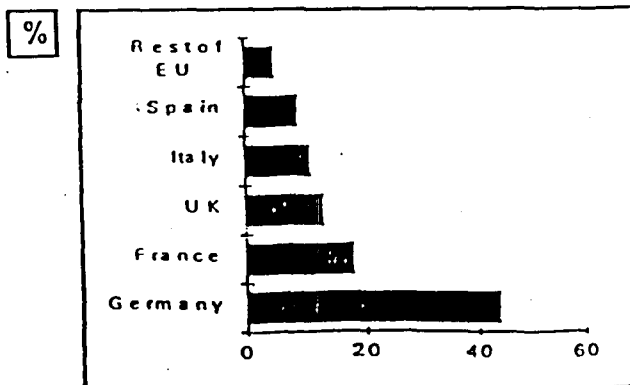
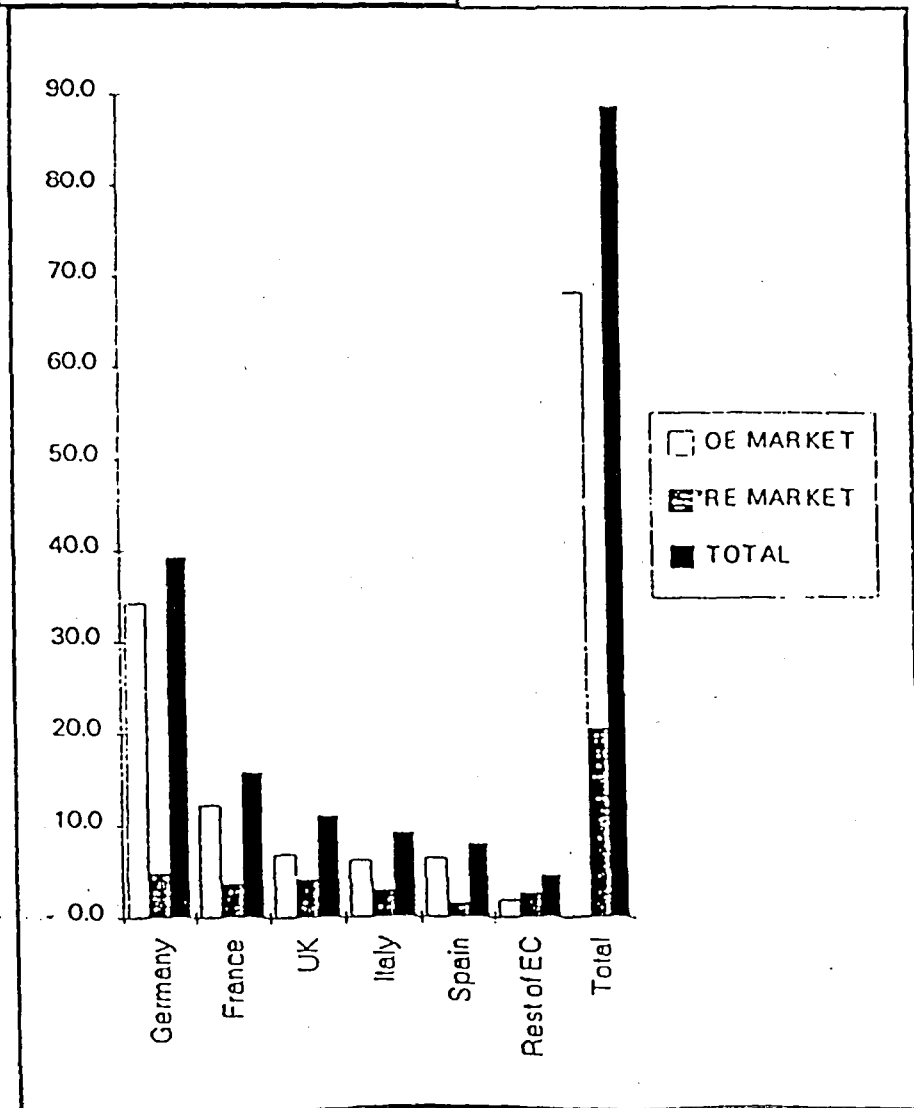


TABLE 8

**EU Automotive Components Industry
Consumption (Ecu Bn 1992)**

Country	Original Equipment Market		Replacement Equipment Market		Total	
	1992	1999	1992	1999	1992	1999
Germany	34.3	30.5	5.0	5.0	39.4	35.5
France	12.2	13.4	3.8	3.4	15.9	16.8
UK	6.9	13.5	4.3	4.2	11.2	17.7
Italy	6.3	7.6	3.1	3.3	9.4	10.9
Spain	6.5	7.7	1.7	1.8	8.2	9.5
Rest of EU	1.9	3.6	2.8	2.5	4.7	6.1
Total	68.2*	76.3	20.6	20.1	88.8	96.4

Consumption 1992 (ECU bn.)



Source: Boston Consulting Group

TABLE 9

Employment In The Motor Vehicles Industry
(Manufacture Of Motor Vehicles And Components - Nace 35)

Year	x1000	index
1980	2213	100.0
1981	2059	93.0
1982	1984	89.7
1983	1940	87.7
1984	1905	86.1
1985	1863	84.2
1986	1832	82.8
1987	1836	83.0
1988	1839	83.1
1989	1855	83.8
1990	1897	85.7
1991	1866	84.3
1992	1821	82.3

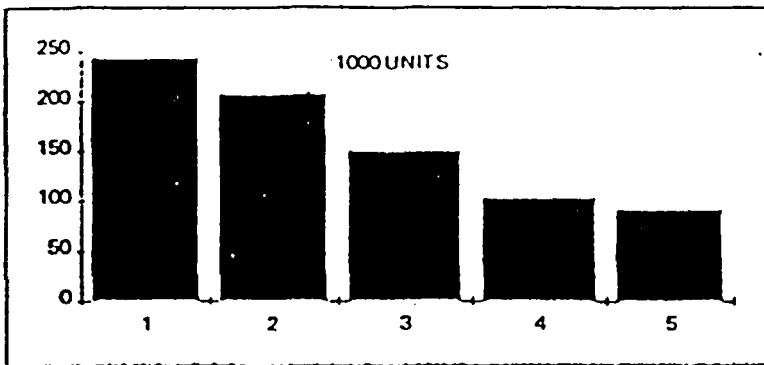
Source: Eurostat - COMEXT

Estimates for 1991 and 1992

TABLE 10

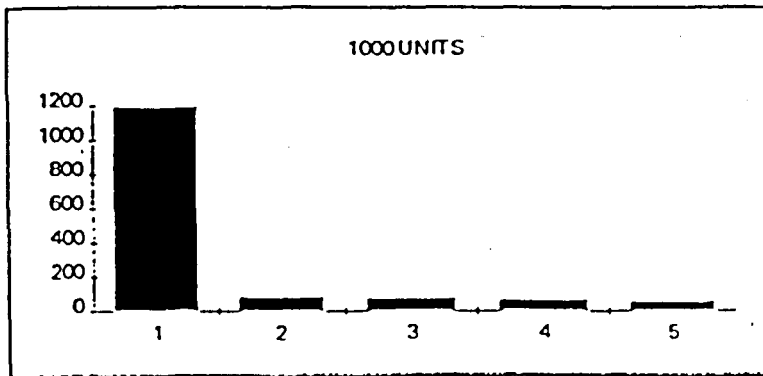
**Trade in New Passenger Cars and LCVs:
The Union's Most Important Partners in 1992**

EXPORTS		
Destination Country	Units (1000s)	Value (ECU millions)
Austria	245	2453
Switzerland	208	2449
USA	151	3367
Japan	104	2233
Sweden	92	1026



- 1. AUSTRIA
- 2. SWITZERLAND
- 3. USA
- 4. JAPAN
- 5. SWEDEN

IMPORTS		
Country of Origin	Units (1000s)	Value (ECU millions)
Japan	1198	9563
South Korea	87	503
USA	81	1024
Poland	70	195
Sweden	61	965



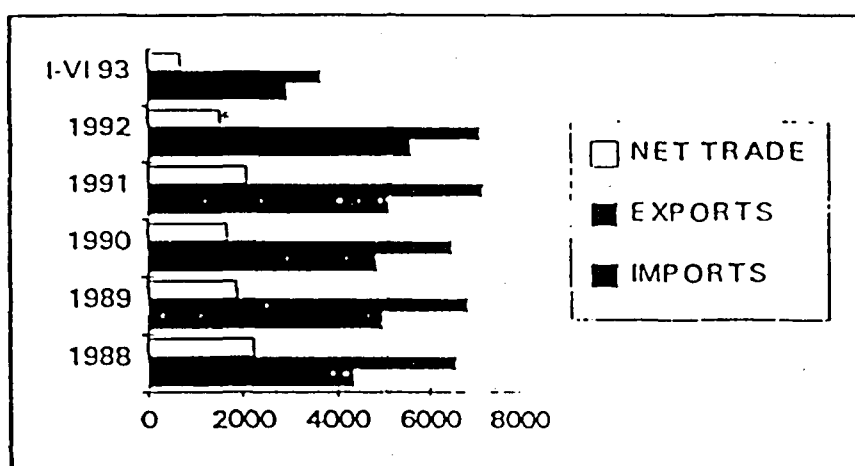
- 1. JAPAN
- 2. SOUTH KOREA
- 3. USA
- 4. POLAND
- 5. SWEDEN

Source: Eurostat - COMEXT

TABLE 11

EU Trade in Car Parts and Components:⁽¹⁾
(ECU millions)

Year	Imports	Exports	Net Trade
1988	4359	6613	2254
1989	4976	6867	1891
1990	4853	6545	1692
1991	5133	7251	2098
1992	5604	7157	1553
1992 - (1-6)	2897	5794	897
1993 - (1-6)	2973	3683	710



EU Trade in Car Parts and Components:⁽²⁾
Most Important Partners in 1992
(ECU millions)

EXPORTS			IMPORTS		
Country of Destination	ECU millions	% Change 1992/1988	Country of Origin	ECU millions	% Change 1992/1988
USA	1090	-38.6	Japan	1379	+25.6
Sweden	772	+3.9	Sweden	1036	+12.7
Austria	554	+53.9	Austria	625	+85.4
Turkey	426	+120.9	USA	573	+31.4
Mexico	397	+218.4	Switzerland	154	+16.3
Japan	261	+92.5	Yugoslavia	82	-25.0
Switzerland	232	+1.0	Brazil	75	+30.4

Source: Eurostat - COMEXT

(1) Including engines and engine parts.

(2) Excluding engines and engine parts.