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**The Political Response of Firms to the
1992 Single Market Program:
The Case of the German Automobile Industry***

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Abstract

This paper examines the political responses of German automobile firms to the 1992 Single Market initiative. I argue that the decision by firms to try to influence EC policies depends on the perceived economic impact of the single market and the market alternative open to firms, while the decision on how to lobby depends on the size of the firm and the institutional and strategic environment in which a firm operates. I use this framework to explain why German automobile firms were slow in responding to the single market initiative and why, when they did choose to lobby, the firms pursued different political strategies. The research suggests that we should not limit our studies to the political activity of trade associations and sectors, but should also examine the political strategies and activities of individual firms. It also suggests that, as integration efforts in Europe proceed, there is likely to be increased activity by individual firms and national associations because European trade associations may not be able to agree on specific EC policy proposals.

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Introduction

The decision by the European Community (EC) to complete the single European market presents European firms with significant opportunities and risks. On the one hand, removing the remaining barriers to trade between the 12 member states will create new markets and result in substantial cost-savings for some firms. On the other hand, it will pave the way for increased competition and for the removal of long-standing systems of protection, which may threaten the viability of some firms. Firms, aware of these opportunities and risks, are not sitting idly by waiting for the European Community to work out the details of the program. They are seeking to shape both the scope and pace of integration efforts.

However, firms and trade associations can no longer depend on their traditional ways of influencing EC integration policy because of changes in the decisionmaking rules in the Community. Under the Single European Act, which took effect in 1987, the Council of Ministers now votes on internal market matters using a system of qualified majority voting rather than unanimity.¹ This means that one country can no longer veto legislation simply by voting against it. It also means that on many issues, firms and associations can no longer simply lobby their national government in the hope that it will block legislation in the Council of Ministers. Instead, firms and associations must seek to build alliances in the European arena and directly lobby EC officials early in the policy process. As one Brussels lobbyist interviewed for this study noted,

Up until two years ago, the main focus was on the national capitals ... Now you cannot do as much over the national level ... It is not that national contacts are superfluous, but Brussels is becoming more and more important.²

The result of this change has been an explosion of lobbying activity in the European Community. Whereas in 1985 there were 654 registered interest groups in Brussels, by 1988, the number had almost doubled to 1336.³ In addition to new lobbying groups,

¹Under qualified majority voting, each country of the 12 member countries receives between 2 and 10 votes, depending on its size. There are a total of 76 votes and 54 are needed to pass any piece of legislation. Certain decisions, such as those regarding the harmonization of taxes and the removal of frontier controls were exempted from this provision.

²Interview, February 28, 1991.

³Most of these represented business interests. Of the 654 groups in 1985, for example, 332 were industrial associations, 139 were groups representing commerce, six were craft and artisan associations, and five were associations representing small and medium sized firms. See Wolfgang Streeck and Philippe

trade associations and firms that already had political representatives in Brussels, are beefing up their operations.⁴ Indeed, there are so many new interest group representatives clamoring for appointments with Commission officials, that one long time German lobbyist in Brussels complained it is almost impossible to get work done anymore.⁵

Not only are there many more lobbyists in Brussels, but the types of EC lobbyists are changing. Many of these new lobbyists are not the European level trade associations that the neo-functional literature suggested would dominate European policymaking in Brussels as integration efforts proceeded.⁶ Instead, there are many individual firms, consultants, national associations and regional representatives lobbying EC officials directly.⁷

The difficulty for firms and trade associations is that there are few formal procedures regulating the participation of business groups in the EC. As a result, there is no unified picture of contacts between business and the EC. Some firms lobby the Commission directly; some hire consultants; some work through national associations; and still others lobby as part of a European trade association. Some firms continue to work primarily on the national level, while others have opened offices in Brussels. It is, as Schmitter and Streeck suggest, a pluralistic system with

Schmitter, "From National Corporatism to Transnational Pluralism: Organized Interests in the Single European Market," *Politics and Society* 19 (1991), p. 137.

⁴For example, UNICE, the European industrial trade association, increased its budget by one third in 1990 and significantly increased its staff in 1991. The Confederation of British Industry increased its number of employees in its Brussels office from one full-time and one half-time person to three full time and one half time person in 1990. It also sent in an older, more experienced person to head up the Brussels office. Even trade groups such as the British Food Association and the German Insurance Association, which decided not to open their own offices in Brussels, began sending a representative to Brussels about once a week.

⁵Interview, February 27, 1991.

⁶See, for example, Ernst Haas, The Uniting of Europe: Political, Social and Economic Forces, 1950-1957. (London: Stevens and Sons, 1958). Haas stresses the importance of transnational groups and supranational institutions in promoting integration efforts. In a 1981 study, Kirchner and Schwaiger note that EC institutions are "only prepared to let European interest groups have a say in Community decision making. They are not prepared to let national or predominately nationally-oriented organizations air their views or participate in decisionmaking." Emil Kirchner and Konrad Schwaiger, The Role of Interest Groups in the European Community, Aldershot: Gower Publishing 1981, p. 39. My interviews suggest this is no longer the case.

⁷See Svein Andersen and Kjell Eliassen, "European Community Lobbying," European Journal of Political Research, 20 (1991): 173-87.

contacts occurring at all levels.⁸

Understanding the political choices that firms make in this period of institutional flux is important because the strategies they now choose will have a large impact on which patterns of lobbying evolve and become institutionalized in the future. Unfortunately, the European integration literature gives us few tools for understanding this development. Much of the traditional integration literature focuses on why integration occurs rather than on how groups organize to try to influence integration efforts.⁹ Studies that do examine the organization and activity of interest groups in the EC were generally written prior to the passage of the Single European Act and are, to a large extent, outdated.¹⁰ They also tend to focus on the activities of trade associations or sectors, rather than on firms, despite the increasing importance of direct lobbying by firms in the EC.¹¹

In this paper, I examine how German automobile firms have responded politically to the 1992 Single European Market

⁸Streeck and Schmitter, "From National Corporatism to Transnational Pluralism," 1991.

⁹For a summary of the various approaches, see H. Wallace, W. Wallace and C. Webb, eds. Policy-Making in the European Communities, (London: Wiley, 1977), especially Ch. 1.

¹⁰These studies include: W. Averyt, "Eurogroups, Clientela, and the EC," International Organization, 29 (1975): 949-972; Alan Butt Philip, "Pressure Group Power in the European Community," Intereconomics, 6 (1987): 282-289; W. Feld, "National Economic Interest Groups and Policy Formation in the EEC," Political Science Quarterly, 81 (1966): 392-411; Horst Fiedler, "Monopolverbände in der Westeuropäische Gemeinschaft," Zeitschrift für Geschichtswissenschaft, 8 (1986): 675-683; Emil Kirchner and Konrad Schwaiger, The Role of Interest Groups in the European Community, (Aldershot: Gower, 1981); K.M. Meessen, Verbände und europäische Integration, (Baden-Baden: Nomos, 1980); Hans-Wolfgang Platzer, Unternehmensverbände in der EG -- ihre nationale und transnationale Organization und Politik, (Kehl am Rhein: N.P. Engel Verlag, 1984); Jane Sargent, "Pressure Group Development in the EC: The Role of the British Bankers' Association," Journal of Common Market Studies, (March 1982): 269-285; and Dusan Sidjanski, "Pressure groups and the European Community," Government and Opposition, 2 (1967):397-416. More recent studies of EC interest group activity include Andersen and Eliasson, "European Community Lobbying," 1991; Streeck and Schmitter, "From National Corporatism to Transnational Pluralism," 1991; and Jane Sargent, "The Organisation of Business Interests for European Community Representation," in Wyn Grant, Business and Politics in Britain, (London: MacMillan, 1987).

¹¹There are some exceptions including Andersen and Eliasson, "European Community Lobbying," 1991; and Roland Stephen, "Domestic Interests, Interstate Bargains and European Integration: The Case of the Automobile Sector," Paper delivered at the 1992 Annual Meeting of the American Political Science Association, September 3-6, 1992. See also J. Zysman and W. Sandholtz, "1992: Recasting the European Bargain," World Politics, 42 (October 1989): pp. 95-128, for a discussion of the importance of multinational corporations in the passage of the Single Market initiative.

initiative.¹² In the first section of the paper, I explore two questions -- when do firms choose to lobby and how do firms choose to lobby. I argue that the decision to lobby will depend on the perceived economic impact of the single European market and the market alternatives open to firms, while the decision how to lobby depends on the size of the firm and the institutional and strategic environment in which a firm operates. In the second section, I use this framework to explore the political strategies of German automakers. I explain why German firms were slow in responding to the single market initiative and why, when German automobile firms did choose to lobby, they pursued different political strategies. In the final section of the paper, I discuss the broader implications of this research for European integration studies and for the more general study of political economy.

* * *

The institutional and political changes in Brussels in the mid-1980s raise important questions for European firms. What economic and political consequences will the single market have for firms? How can firms most effectively influence EC single market policies? Are activities at the national level or reliance on European level trade associations still sufficient?

To answer these questions, we must first examine why firms choose to lobby in response to the single market initiative. Undertaking political activity such as lobbying is a costly and uncertain strategy for firms. It requires time, personnel, money, and information. Firms have limited resources they can use to pursue these political strategies. They must consider whether it is worth investing these limited resources in political activity or whether they might be better spent engaging in other activities such as making market adjustments.

Whether a firm chooses to engage in lobbying activities will depend on the perceived impact of the single market on its operations and its ability to make economic adjustments in response to the single market initiative.¹³ The perceived impact is simply

¹²This is part of a larger study that examines the political responses of German and British firms to the 1992 Single Market Program. In that project, I analyze the political responses of firms in four sectors -- automobiles, insurance, beer brewing, and trucking. See P. Camerra-Rowe, "Lobbying in the New Europe: Political Responses of Firms to the 1992 Single Market Program," Ph.D. dissertation, Duke University (forthcoming, 1994).

¹³The approach I use here is similar to Jeffrey Frieden's in Debt, Development and Democracy, (Princeton, NJ: Princeton University Press, 1991). Frieden argues that the economic characteristics of a firm will determine whether it will seek government policies and what sort of policies it seeks. In particular, he suggests that the incentive to lobby increases with the specificity of a firm's or sector's assets. The difference in the approaches is that Frieden focuses on collective political activity rather than on the political activity of individual firms. He also does not seek to explain the channels firms pursue to influence policy.

how susceptible the firm feels it is to the changing market conditions that will result from the completion of the single market. This evaluation depends on such economic factors as the competitive position of a firm, its degree of regulation or government subsidies, and the structure of its markets.¹⁴ Highly regulated firms, for example, are likely to fear that the EC's policies will significantly increase competition and require major economic readjustment. Firms with local markets are more likely to believe that the single market will have little impact on their operations.

The response of a firm will also depend on its ability to undertake market strategies to adapt to the post-1992 market. Here again it is primarily economic factors that are important in a firm's evaluation. For some firms, high fixed costs or commitment to a particular product line limit the ability to exit the market easily or to make economic adjustments. Others will be unable to take advantage of economies of scale offered by the single market. The only alternative for such firms may be to use voice -- or political activity -- to try to influence policy.¹⁵

Based on their market position and their ability to make economic adjustments, firms fall into one of four categories -- they may believe they will not be affected by changes in market structure; they may perceive themselves as negatively affected by the single market but be able to make economic adjustments or exit the market; they may perceive themselves as negatively affected, but be unable to make significant economic adjustments; or they may anticipate benefitting from the single market.

The lobbying activity that these firms undertake will vary in degree and intensity. Firms that do not anticipate that the single market will affect their economic position will not invest scarce resources to lobby the EC. Firms that perceive themselves as negatively affected and have few economic alternatives will engage in political activity with the greatest intensity because for them the economic stakes are the highest. The effects of single market policies will be concrete and apparent -- indeed they may threaten the viability of individual firms. Even if a firm cannot change policy through political lobbying, it may be able to buy time, win side payments to alleviate the costs of the policy change, or persuade the EC to establish new European-wide regulations. Firms that perceive themselves as negatively affected and can make

¹⁴For a discussion of how the single market will affect various sectors, see Paolo Cecchini, The European Challenge 1992: The Benefits of a Single Market, (Aldershot, England: Wildwood, 1988); Commission for the European Communities, "The Economics of 1992," European Economy, No. 35 (March 1988); Ifo-Institut für Wirtschaftsforschung, Die Verwirklichung des Europäischen Binnenmarktes und die Wirtschaftspolitik, München: Ifo-Institut, 1989.

¹⁵See A. Hirschmann, Exit, Voice and Loyalty, Cambridge, MA: Harvard University Press, 1970.

structural adjustments or exit the market are less likely to undertake political activity, although they too may try to influence policy in order to hedge their bets or win time to make economic adjustments. And finally, firms that stand to benefit from the single market may also choose to lobby to ensure that a policy is carried out or even accelerated, but again there is less incentive to invest scarce resources in lobbying, particularly if government officials are already committed to the policy. Moreover, the benefits of such policy changes are not as immediate and concrete.

Once a firm chooses to engage in political activity, it must decide whether to rely on traditional methods of lobbying or undertake new political strategies. Should it work through its national or European trade association, open its own office in Brussels and lobby unilaterally, or ally informally with other similarly situated EC firms? Should it focus its efforts on the national or European level? The answers to these questions make up the pattern of lobbying activity. Firms will choose what they perceive to be the most effective pattern of lobbying. The pattern they choose will depend on three key factors -- first, the firm's size¹⁶; second, its strategic environment; and third, its institutional linkages to policymakers.

It has been well established that size makes a difference in politics. Olson argues that small groups such as sectors with a small numbers of large, oligopolistic firms have an easier time organizing to try to influence policy.¹⁷ And firms may be able to obtain collective goods more easily through such collective action. However, the interests of firms within a sector may diverge considerably and this may result in unilateral political action. Here large firms also have an advantage because they have greater resources and they tend to be important political constituents. Governments are interested in maintaining employment and investment and are therefore more likely to be influenced by the actions of a single large firm than a single small one.¹⁸ Thus, we are more likely to see unilateral action by large firms.

But size alone will not determine differences in lobbying

¹⁶Size is not a decisive factor in the automobile case study since all of the firms are large firms that contribute significantly to the national and EC economy. However, it is an important factor in comparing the political responses of firms in other sectors.

¹⁷Mancur Olson, The Logic of Collective Action, (Cambridge, MA: Harvard University Press, 1971).

¹⁸See, for example, Charles Lindblom, Politics and Markets, (New York: Basic Books, 1977) and Stephen Elkin, "Pluralism in its Place: State and Regime in Liberal Democracy," in Roger Benjamin and Robert Duvall, eds., The Democratic State, (Lawrence, Kansas: University Press of Kansas, 1985).

patterns since not all large firms will choose to lobby the EC unilaterally. The strategic environment of the firm is also critical. Here what I am referring to is, first, the position of the firm within a sector and, second, the position of the firm vis a vis the government. In terms of a firm's position within a sector, the number, size, mix, and economic position of firms within a sector will influence a firm's interests and its ability and willingness to cooperate politically.¹⁹ For example, a non-competitive or marginal firm will have different interests than competitive firms. If the economic position of a firm within a sector is such that its interests diverge considerably from other firms in its sector, it is more likely to engage in unilateral lobbying in the EC. In addition, the position of national and European level government officials on single market policies will affect lobbying decisions. For example, firms that believe they will find inadequate support for their position at the national level are more likely to turn to EC lobbying efforts.

The third factor that will affect patterns of lobbying will be the firm's institutional access to policymakers. Existing institutions will structure the lobbying strategies available to firms. Factors such as the organization of national and European trade associations, and the firm's relationship to political parties and government ministries will be important in determining whether firms engage in associative or unilateral activity.²⁰ For example, those firms who are members of weak national or European trade associations are more likely to lobby the EC directly, than those who are members of well-financed, well organized national or European trade associations.

Using this framework, I can generate expectations about when and how firms will respond to the political and institutional changes in the EC. In terms of which firms will lobby, those that believe they will be negatively affected by the single market and have few market alternatives are the most likely to undertake political lobbying activities designed to halt or slow the pace of integration and will do so with great intensity. Firms that believe they will be negatively affected and can easily make economic adjustments, and firms that believe they will benefit from the single market may also lobby, but with to a lesser extent and with less intensity. In terms of the patterns of lobbying, large

¹⁹See Wyn Grant and Wolfgang Streeck, "Large firms and the representation of business interests in the UK and West German construction industry," in A. Cawson, ed. Organized Interests and the State, (London: Sage, 1985).

²⁰For example, Schmitter and Streeck argue that different institutional environments create different logics of influence for collective action. See Schmitter and Streeck, "The Organisation of Business Interests: A Research Design to Study the Associative Action of Business in the Advanced Industrial Societies of Western Europe," (Berlin: Wissenschaftszentrum, 1981). See also Grant and Streeck, "Large firms and the representation of business interests ...," 1985.

firms, firms that are part of weak national or European trade associations, or firms in sectors with divided economic interests, are more likely to engage in unilateral lobbying at the EC level.

To explore these propositions, we examine the political responses of German automobile manufacturers to the single market initiative.²¹

* * *

As part of the Single Market Program, the European Community agreed in 1986 to complete a single market for automobiles.²² Completion of the single market for automobiles was viewed by the Commission as critical to the success of the program because of the importance of the sector to the European economy.²³ While the EC had already been involved in policy making in the automobile sector for many years, completion of a single market in this sector still required establishing Community-wide type approval so that car manufacturers do not have to build different model cars for each market²⁴; harmonizing taxes on automobiles; and monitoring state aids. In addition to these issues, the completion of the single market for automobiles goes beyond the measures outlined in the Commission's White Paper to include other important automobile-related issues including the removal of national automobile import restrictions, external trade policy with Japan, block exemptions of exclusive dealerships in cars, and harmonizing environmental

²¹I examine three manufacturers -- Daimler-Benz, BMW and Volkswagen. While I also interviewed officials at Porsche, I do not treat the firm separately here because they pursued strategies similar to those of BMW.

²²See Commission of the European Communities, "Completing the Single Market. White Paper from the Commission to the European Council." Brussels, June 1985, especially Annex, p. 15 for sectoral proposals regarding motor vehicles.

²³The motor vehicle industry represents about 9% of EC industrial value-added and directly employs 1.8 million people. It is estimated that one out of 10 jobs in the EC depends directly or indirectly on the automobile sector. Commission of the European Communities, Panorama of EC Industry 1990, (Luxembourg: EEC, 1990), p. 13-6.

²⁴While the Commission had already proposed in 1970 to create whole vehicle type approval by harmonizing 44 automobile standards, French and Italian automakers held up this process by blocking the harmonization of three standards regarding tires, wind shields, and weights and dimensions. French and Italian automakers feared that with whole vehicle type approval, Japanese cars in countries like Denmark, Ireland, Germany and Great Britain, would more easily find their way into France and Italy. They refused to approve the remaining standards until the issue of external trade with Japan was satisfactorily resolved.

standards and emission controls.²⁵

The removal of national automobile import restrictions and the external trade policy with Japan have been the most controversial aspects of creating a single market for automobiles. There have traditionally been wide differences in the number of Japanese imports allowed in national markets. Italy has limited the number of Japanese cars to under one percent of its market or approximately 17,000 cars annually²⁶; France has restricted Japanese cars to 3% of its market or about 60,000 car annually; Great Britain has a voluntary export restraint agreement with Japan that limits Japanese cars to 11% of its market. In countries with no restrictions, the Japanese share of the market averages 26% and is as high as 43%.²⁷

While the EC could have maintained some national restrictions after 1992 under Article 115 of the Treaty of Rome, removing these restrictions was viewed by the Commission as a key element of creating a single market for automobiles. As the Vice President of the Commission Martin Bangemann noted,

The Single Market cannot function properly if, within it, some member states continue to impose quantitative restrictions. How could it function? How would you prevent imports from countries without quantitative restrictions into countries with quantitative restrictions? There is no practical way of doing it, let alone legal means ... It is, therefore, simply impossible.²⁸

However, removing such national restrictions would allow Japanese imports as well as Japanese transplants, which are

²⁵See Commission Communication, "A Single Community Motor Vehicle Market (10971/89), which outlines the specific issues the EC must address to create a single market for automobiles. For a more extensive discussion of the effects of the single market on the automobile industry, see A. Smith and A. Venables, "Automobiles," in Gary Hufbauer, ed. Europe 1992, (Washington, D.C.: Brookings, 1990).

²⁶The market share of Japanese cars in Italy is now close to 3 percent since the Commission has gradually increased the authorized parallel imports from other member countries into Italy. See Heinrich von Moltke, "Commentaries on Automobiles and Steel," in Claude Barfield and Mark Perlman, eds. Industry, Services and Agriculture: The United States Faces a United Europe. (Washington, D.C.: AEI Press, 1992), p. 101.

²⁷See Select Committee on the European Communities, House of Lords, "A Single Market for Cars," HL Paper 76, (London: HMSO, 1989), p. 6. Also A. Smith and A. Venables, "Automobiles," p. 125.

²⁸Martin Bangemann, "Issues and instruments of European industrial policy," in Towards a Wider Horizon, Daimler-Benz Publication Series "European Topics," p. 18.

Japanese cars made in Europe²⁹, to circulate freely in EC markets. Some analysts have argued that this would create severe adjustment problems for some European automakers and could possibly drive some European firms out of business because the competitive gap between Japanese and European automakers is still very wide. For example, it takes EC workers an average of 37 hours of work per vehicle produced versus 17 hours for the Japanese. In terms of development, it takes the Japanese 3.5 years per model compared to 5 years for EC automakers. Finally in terms of reliability, there are an average of 60 defects per 100 vehicles among Japanese automakers compared to 105 per 100 vehicles for EC manufacturers.³⁰ Thus, whatever gains European automakers might make from creating a single market could be erased by the structural adjustments firms would have to make to compete with the Japanese.

As a result of these fears, the issue of external trade with the Japanese became intimately linked with the discussion of a single market for automobiles. Firms, national governments and the Commission struggled to decide how long and in what form protection of the auto industry from the Japanese should continue. Should, for example, national import restrictions be replaced by EC-wide restrictions on automobiles? Should the Community require reciprocity from Japan before opening its market to Japanese automobiles? And how should the Community deal with Japanese transplants in countries like Great Britain, where Japanese companies have made substantial investments? The difficulties the Commission had in coming up with an acceptable proposal on such issues as trade policy towards Japan is reflected in the fact that it did not release an official position on a single market for automobiles until December 1989.³¹

Despite the seeming controversy over creating a single market for automobiles, the initial response of German automobile firms to the plan to complete the single automobile market was to engage in no new political activity. All major German automakers initially supported the single market initiative, but they left it to their national trade association, Verband der Deutschen

²⁹Among the EC member countries, Great Britain produces the most Japanese transplants. Nissan invested 400 million pounds in Great Britain by 1990. It produced 76,976 cars in British plants in 1989 and expected to produce 200,000 cars there by the end of 1992. Toyota and Honda began producing automobiles in Great Britain in late 1992. Statistics from The Society of Motor Manufacturers and Traders Limited, London, June 1990.

³⁰Select Committee on the European Communities, House of Lords, "A Single Market For Cars," p. 50. For a full discussion of the differences between Japanese, American and European auto producers, see James Womack, Daniel Jones and Daniel Roos, The Machine that Changed the World: The Story of Lean Production, (New York: Harper, 1991)

³¹Commission communication, "A Single Community Motor-Vehicle Market," (10971/89).

Automobilindustrie (VDA); their national industrial association, Bundesverband der deutschen Industrie (BDI); and the German government to represent their position. German firms were also represented in two European trade associations -- indirectly, through the VDA in the Coordinating Council of European Car Manufacturers (CLCA), which was made up of national trade associations of motor vehicle manufacturers from EC countries; and directly, in the Committee of Common Market Automobile Constructors (CCMC) which was governed by the chairmen of 12 companies -- Peugeot, Renault, Fiat, BMW, Daimler-Benz, MAN, Porsche, Volkswagen, Rover Group, Roll-Royce Motor Cars, DAF and Volvo.³² Direct contact between German automobile companies and EC officials was minimal. By 1989, however, this changed. Not only did some German automobile firms become more politically active in Brussels, but they took opposing positions on specific EC automobile policies, in particular the issue of Japanese trade policy, and engaged in different types of lobbying activities. This raises two questions. First, what led to the shift in political activity by German firms? and second, what accounts for the differences in the patterns of political activity?

German firms were initially quite slow in responding to the single market program because they felt the impact of EC policy would be negligible. Compared to their EC counterparts, the major German automobile firms already operated in a fairly open and competitive market. Germany has no official import restrictions on Japanese imports, although the Japanese since 1981 have voluntarily limited their market share in Germany to 15%.³³ This, however, is the highest percentage of Japanese cars in an EC member country with domestic car manufacturers.

Moreover, several of the German car manufacturers suggested that they recognized long ago the benefits of a single market and had acted accordingly by establishing themselves in other European and foreign markets. This was particularly true for the specialty car manufacturers, BMW, Daimler-Benz and Porsche. Two-thirds of BMW's cars, for example, are sold outside of Germany. The United States is generally the most important market for these manufacturers, although in recent years they have made headway in Japan after making substantial investments. While Japan may only be their third or fourth largest export partner, it is very profitable because more expensive cars are sold there. Volkswagen, while it is a volume producer and occupies a different market niche, is also a global player. It exports a large proportion of its cars to other countries in the EC and the rest of Western

³²On April 1, 1991, the automakers reorganize at the European level and create a single new European trade association called the Association de Constructeurs Europeens d'Automobiles (ACEA) to coordinate EC policy. Only Peugeot does not join.

³³Interview, March 21, 1991.

Europe. Because the major German automakers were already competing on a worldwide basis, they had begun in the early 1980s to adjust their economic strategies in order to make themselves more competitive.

German automakers also benefitted from a boom in the European auto sector in the mid-1980s. The production of cars rose from 10.8 million vehicles in the EC in 1985 to 13.4 million in 1988, an increase of 24%. In 1988 EC registration of new passenger cars reached record levels of 11.8 million vehicles.³⁴ While sales in Germany were weak in 1988, the German manufacturers were able to make gains in other countries.

Thus, the single market seemed little threat to German firms. The major German car manufacturers were already well established in Europe, with two-thirds of all German vehicles ending up in other EC markets. If anything, they welcomed the EC's general initiative to create a single and open market because it strengthened their position in Europe and because it reduced the risks of a trade war with the Japanese. There was no incentive for German firms to engage in new political activity to try to influence EC policy since their traditional national channels of influence, as well as the Commission, supported their position of an open market. Direct contacts between the firms and EC officials remained sporadic. As one VW official aptly put it: "We were successful. We did not feel any need to change. In order for business to change it needs either political or economic pressure."³⁵ And there was neither.

But in 1989, this attitude began to change. There was growing uneasiness among some German industry officials about specific developments in the European Community and three different patterns of political activity emerged. First, Daimler-Benz, which up to this point had no official representative in Brussels, hired an EC lobbyist in July 1989 and officially opened a corporate office in Brussels in December 1989. This office now serves as a public relations and lobbying office and as the European division of the firm. The firm also conducted an in-house evaluation of the effects of the single market on its operations. Second, VW also conducted an in-house evaluation of the single market and began pushing a more protectionist position in the EC. The firm did not open its own office in Brussels, but, on the issue of trade policy, VW allied itself with other European volume producers such as Fiat and Renault to lobby the Commission directly for restrictions on Japanese imports and transplants. Third, BMW undertook little new political action at this time, although company officials considered setting up a Brussels office. The firm continued to

³⁴Commission of the European Communities, Panorama of Industry 1990, (Luxembourg: Office for Official Publications of the EC, 1990), p. 13-8.

³⁵Interview, March 18, 1991.

work primarily through its national association, with only sporadic direct contact with the EC.³⁶ To account for this change and for the different patterns of political lobbying, we examine each of the firms in turn.

Daimler-Benz

Among EC automakers, Daimler-Benz has traditionally been the strongest supporter of a single and open European market. As a specialty producer, it cannot afford to rely simply on the German or even the European market. So it made substantial investments abroad, which it wished to protect. Company officials believed that the single market would have little impact on the economic operations of the company since the company was already well-established in its foreign and domestic markets and had built a reputation for producing high quality, reliable and durable cars. Indeed, during the 1970s and early 1980s, the company saw output rise almost every year. Since the Commission, along with the German government, VDA, and BDI supported Daimler's position, there was little need for Daimler to engage in direct lobbying in Brussels. Indeed, its only direct political representation was one official in Bonn.

But by 1989, the firm recognized that the French automakers, in particular, had become much more obstinate in their demands for protection and the firm feared that the Commission would be pressured into accepting European-wide restrictions on Japanese car exports to the EC. This could hurt Daimler's interests because the Japanese would export more higher priced luxury automobiles to Europe. As Hanns Glatz, chief lobbyist for Daimler-Benz in Brussels, pointed out the Japanese have

learned out of quantitative restrictions that if you want to make money on restricted volume do it by value, and second, they see ... that the upper end of the market is the rich end. But there is not, of course, unlimited space for everybody there, so we are getting under more pressure and this is one reason we are strongly opposed to quantitative restrictions.³⁷

Daimler-Benz officials wanted to ensure that the Commission did not renege on its commitment to an open market.

Moreover, they believed that the French and Italian

³⁶BMW has since set up an office in Brussels. It opened in early 1992. See Jeffrey Anderson, "German Industry and the European Community in the 1990s," in Volker Berghahn, ed. European Strategies of German Big Business, (Oxford: Berg Publishers, Inc., forthcoming 1993).

³⁷Select Committee on the European Communities, House of Lords, "A Single Market for Cars," HL Paper 76, (London: HMSO, 1990) p. 34.

automakers, who were pushing for more restrictive policies, were better organized and had more influence on the European level. Fiat has had an office in Brussels for many years. French automakers often prepared documents for the Commission before it issued its proposals, according to one lobbyist.³⁸ Daimler, on the other hand, did not even have a European affairs or government relations department to deal systematically with EC issues. Like other German firms, Daimler-Benz traditionally relied on its national trade association, which is consulted by and consults regularly with national government officials, to influence national and European level policy.³⁹ But the growing impression that French and Italian automakers were more influential on EC policies, which could significantly affect Daimler's economic interests, prompted the firm to reconsider its lobbying efforts.

The question for Daimler-Benz was how to best influence developments in the European Community. The company decided to open its own corporate office in Brussels. In July 1989, it hired an EC lobbyist in Brussels and, in December 1989, it officially opened its Brussels office, which included four lobbyists and a three member support staff. The office serves as the European affairs division of the company, coordinating its responses and circulating information on EC policy. At the same time, Daimler developed a network of corporate representatives in Bonn, Washington, Berlin and Tokyo.

How can we explain Daimler's choice of engaging in a unilateral strategy at the European level? First, the company could afford to do so by virtue of its size. It is the largest private employer in the EC. Not only does it have resources, but as a result of its size, it has easier access to EC officials than many firms. Glatz, the head lobbyist for Daimler-Benz in Brussels, said they are often contacted by the staffs of EC Commissioners and that they have a relatively easy time getting information.⁴⁰ Moreover, Daimler-Benz had the resources to hire Glatz, who has been a lobbyist in Brussels for 20 years, and has an extensive network of contacts. For firms that do not have the importance or the contacts, it is much more difficult to engage in direct lobbying.

Second, Daimler's diverse economic interests made it difficult

³⁸Interview, February 20, 1991.

³⁹Streeck suggests, for example, that German ministerial departments tend to discourage individual firms from contacting them directly on matters that are dealt with by their national associations. See Wolfgang Streeck, "Between Pluralism and Corporatism: German Business Associations and the State," Journal of Public Policy, 3 (1983): 265-84. One should not get the impression, however, that no direct lobbying takes place in Germany. Automobile company officials do contact ministry officials and the chancellor's office, particularly in regard to company-specific issues.

⁴⁰Interview, February 19, 1991.

to find adequate representation through a single national trade association. Daimler-Benz diversified in the late 1980s and 1990s and now includes not only Mercedes-Benz, the motor vehicle manufacturer, but also Deutsche Aerospace, AEG (the electronics company), and the insurance and marketing firm, DEBIS (Daimler Benz Interservices). Again Glatz noted, "We, as a technological company, have no specific trade association. Therefore, it is important for a conglomerate [to have direct representation]."⁴¹ The firm was thus willing to bear the costs of direct lobbying, regardless of whether other firms could free ride on its efforts.

Third, firms like Daimler Benz were not getting effective representation through the two European trade associations representing the automobile industry in Brussels -- the CLCA and the CCMC.⁴² The CLCA, established in 1958, consisted of representatives of the national trade associations. It represented European automakers as well as American and Japanese producers such as Ford of Europe and Nissan U.K., who were members of the British motor vehicle trade association, The Society of Motor Manufacturers and Traders (SMMT). These diverse interests, coupled with its unanimity rule, often made it difficult to reach a common position on important issues. The second organization, the CCMC, represented the European automakers directly and did not include Ford of Europe, General Motors, or Nissan. But again the organization operated under the rule of unanimity and was often unable to reach agreement on major issues. This was particularly true on Japanese trade policy, where Jacques Calvet of Peugeot blocked any compromise position. EC officials complained that they did not know who to turn to for information on policy initiatives and even when they did receive information from the two organizations, it was often contradictory or useless. As a result, the automobile industry as a whole was having little direct influence on EC policy.⁴³ These institutional problems at the European level provided Daimler-Benz with incentive to lobby on its own.

Thus, Daimler-Benz's size and diverse interests, coupled with its inability to get adequate representation through a national or European trade association, prompted it to act unilaterally.

BMW

Like Daimler-Benz, BMW officials initially saw the single

⁴¹Interview, February 19, 1991.

⁴²The automakers do reorganize at the European level and create a single European trade associations for automobile manufacturers in April 1991. See fn. 32.

⁴³Interview, May 6, 1991.

market as having a negligible impact on the firm. BMW gained a reputation as a producer of high quality and high performance cars during the 1970s and 1980s and had generally seen substantial growth in its production in the 1970s. It supported the single market initiative and a free trade policy because it was heavily reliant on its exports, particularly to the U.S. market.

But BMW's view of the single market became more cautious in the late 1980s, due in large measure to its changing economic fortunes. In 1989, BMW sales in the U.S. market declined 12%. BMW officials attributed its losses to the Japanese gains in the U.S. market, arising both from the Japanese automakers price competitiveness and from currency shifts which made BMW automobiles more expensive.⁴⁴ Like Daimler-Benz, they did not wish to see European wide restrictions on Japanese exports to Europe, since this would only prompt the Japanese to export to Europe higher priced cars, which would compete more directly with BMW's models. As one BMW official said, "We don't want it [the market] to go the way of cameras. We want to build something."⁴⁵

BMW officials considered opening their own lobbying office in Brussels to ensure that they have influence over the EC's single market policies. But unlike Daimler-Benz, they decided in the late 1980s against this strategy. Instead, they continued to pursue more traditional channels of political influence, such as working through their national association and regional and national government contacts.

BMW's different response was largely due to the fact that BMW could free ride on the political organization of Daimler-Benz. The two companies have similar interests in terms of the single market for automobiles. They both rely heavily on exports to the U.S. and Japan and wished to avoid European wide restrictions on Japanese automobiles, which would drive Japanese automakers into their market niche. BMW could depend on Daimler-Benz to represent its interests to the Commission. Indeed, company officials told me they often allowed Daimler-Benz to formulate positions on single market policies.⁴⁶

BMW could also free ride on its regional contacts. According to BMW officials, the company has excellent contacts with Bavarian government officials. BMW is the largest employer in Munich and has contributed to economic growth in poorer border areas in Bavaria by setting up production facilities there. As a result,

⁴⁴Interview, January 16, 1991.

⁴⁵Interview, January 16, 1991.

⁴⁶Interview, January 16, 1991.

politicians in the Bavarian government "have an open ear."⁴⁷ Bavaria was the first of the German states to open an information office in Brussels in the late 1980s. If there were European issues of importance to the firm, it could also contact regional officials.

Thus, BMW chose no new political strategy because it could rely on its regional contacts and could free ride on the organization of Daimler-Benz.⁴⁸

VW

Volkswagen weathered a crisis in the early 1970s in which it suffered huge financial losses and had cutback its workforce significantly. To recover, it expanded its operations internationally and diversified, increasing the number of Volkswagen models, and adding Audi models to compete in the upscale market, and SEAT to offer smaller models. As a result of these economic changes, it became a global auto manufacturer. Thus, Volkswagen officials believed it was well positioned to compete in the single and open market and did not foresee the EC's initiative as having a great impact on its operations. Indeed, VW board member Peter Frerk noted, "For the European automobile industry there can be no "Fortress Europe" ... the import of Japanese products has not only increased competition, but increased the competitiveness of European competitors."⁴⁹ But by late 1988 and early 1989, some company officials were changing their tune.

Unlike Daimler and BMW, VW's market is concentrated in Germany and the EC, rather than in the U.S. and Japan. While the firm continued to be profitable in the late 1980s, most of its gains were in the markets that were most strongly protected from Japanese competition. In 1989, for example, Volkswagen's strongest volume markets outside of Germany, were Italy, Spain, France and Great Britain. VW officials feared that with unrestricted access of Japanese imports by the end of 1992, the company's inroads into the

⁴⁷Ibid.

⁴⁸BMW's decision in 1992 to establish a public relations and lobbying office in Brussels can be explained by a number of factors. First, Daimler's interests are so broad ranging that much of the company's direct lobbying efforts in Brussels are directed to areas other than the auto industry, according to Glatz. In addition, the national association, VDA, focuses much of its attention in 1990 and 1991 on issues regarding unification of Germany and Eastern Europe. Finally, the reorganization of the CCMC and CLCA in 1991 also leave the German auto industry with a less powerful voice in Europe, because national trade association representatives only have a consultative role in ACEA.

⁴⁹P. Frerk, Speech to the International Management-Forum, Society of Plastics Engineers in Cologne, 19.02.90.

French and Italian markets, would be eroded.⁵⁰

Second, VW officials found it very difficult to become more price competitive. While they tried to reduce development times and trim costs, they were still not as productive or cost efficient as the Japanese. In terms of product development, for example, it takes the Japanese 3.5 years per model versus at least 5 or 6 years for VW. And its assembly lines take four times the amount of labor.⁵¹ As one VW official put it, "The Japanese have the products, productivity, and quality."⁵²

Trimming costs has also been particularly difficult with the high wage costs and union strength in Germany. For example, after the Second World War, VW began a practice of sending its employees away for 14 days every two years to spas in addition to their annual six weeks of vacation. This practice was started because workers were not getting enough to eat and were not very productive and company officials believed this would help them regain their strength. Since German workers no longer have a problem of getting enough to eat and it was a very expensive practice, the company tried in 1990 to get rid of this provision but labor union representatives prohibited them from doing so.⁵³

Not only has it been difficult to cut worker benefits, but it has been difficult for the firm to reduce overstaffing. The state government of Lower Saxony, where VW headquarters is located, is VW's largest stockholder, holding 19.7% of the company's shares. It also holds two seats on Volkswagen's 20 member supervisory board. These two state representatives, who are Social Democrats, allied themselves with the eight labor representatives on the supervisory board to prevent former VW head Carl Hahn from cutting workers.⁵⁴

Thus, the change in the perceived impact of the Single Market, coupled with the difficulties in making market adjustments, prompted VW to change its position on EC policy and engage in a more activist political strategy in Brussels. First, whereas prior to 1988 discussion of the Single Market at VW was sporadic, in late 1988 the company set up a European strategy group to examine the effects of the single market, draw up reports, and present them to the Board of Directors. The reports discussed the position of the

⁵⁰Interview, March 18, 1991.

⁵¹New York Times, March 15, 1993, p. D1

⁵²Interview, March 18, 1991.

⁵³Interview, March 18, 1991.

⁵⁴New York Times, March 15, 1992, p. D1.

company and suggested areas where the company should make adjustments. Second, in 1989, the company changed its position on the single market. Whereas previously it supported the single market wholeheartedly, it now suggested that a complete opening of the car market in Europe to Japanese exports would threaten European automakers. As one VW official noted, "They (the Japanese) could come in in 1992 and press the company against a wall ... Why should I have to give up advantages that took years to develop, while others work at a lower standard. It is social dumping or more."⁵⁵ In order to influence Japanese trade policy, Hahn worked with the heads of Fiat and Renault to lobby the Commission for restrictions on Japanese exports to the EC and on transplants.

The primary reason that VW pursued a transnational coalitional strategy on the issue of Japanese automobiles is that the firm found inadequate support for its position at the national level. Because the German economy is highly export oriented, the German government took a very liberal position on the single market. This created some tension between the firm and the government. As one VW official explained, the German Economics Minister wanted an open and free market, even "against the interests of some German firms."⁵⁶ Former Economics Minister Helmut Haussmann was furious about VW's change in position.⁵⁷ VW concluded that it could not count on the support of the German government.

Second, VW did not have an effective advocate in its national trade association on the Japanese trade policy issue. The German automobile trade association, VDA, represents both German automobile manufacturers and parts manufacturers, and advocated a very liberal position in regard to Japanese automobiles. Indeed, VDA officials admitted that the association has always been for a free market even against the wishes of some of its members.⁵⁸ They argued that in the long term, German industry can only be viable if they compete internationally and are not protected from outside competition. VW found itself having a much more restrictive position than the majority of firms in the association.

Third, there were similarly situated firms in other EC-member countries, particularly Fiat and Renault, which enabled VW to take collective action. VW chose not to ally itself with Peugeot because company officials felt that Peugeot was too unrealistic in its demands -- asking to keep the European market closed from

⁵⁵Interview, March 18, 1991.

⁵⁶Interview, March 18, 1991.

⁵⁷Interview, March 21, 1991.

⁵⁸Interview, November 23, 1990.

Japanese competition until at least 2010 or until the Japanese opened up their markets equally to the Europeans. Peugeot was unwilling to compromise with the Commission or other automakers on this issue. As one VW official put it, with that type of position, "one gets nothing."⁵⁹

Fourth, VW could use existing facilities to help coordinate lobbying activities in Brussels. They have a finishing plant and a services and investment banking center, CCB, in Brussels, which help to coordinate contacts to the EC. This allowed them to avoid the cost of setting up their own corporate lobbying office in Brussels.

Thus, VW did not set up its own office in Brussels, but, on the crucial issue of trade with Japan, company officials worked on the European level to build transnational alliances because they found little support for their position on the national level and because there were similarly situated firms in other countries in Europe. While VW certainly could open up its own lobbying office, company officials said this was too expensive an option and they could depend on existing facilities.

These three cases help to account for the inactivity of German automobile firms in the early stages of the single market and their shift in 1989. Initially, the firms did not believe that the single market would affect significantly their economic operations. If anything, company officials believed it would help their operations by allowing them easier access into some markets, as well as preventing a trade war with their export partners. Moreover, the firms could rely on a strong national trade associations, as well as national and EC level government officials, to advocate a free and open market. The changing economic fortunes and perceptions of the firms, particularly on the issue of trade with the Japanese, led them to pursue new political activity in the late 1980s and the early 1990s. Yet despite the fact that they are all within a single sector, these firms did not take similar positions or follow similar strategies. Both Daimler-Benz and BMW advocated a free and open market, but while Daimler-Benz chose to open its own public relations and lobbying office in Brussels and coordinate its EC policy through this office, BMW continued to rely on more traditional forms of lobbying and did not establish a European division. VW chose to build alliances with other similarly situated EC automakers, such as Fiat and Renault, to lobby the EC directly on the issue of Japanese trade policy. These differing activities are due to the firms' strategic positions within the sector, the position of national government officials, and the organization and position of national and European trade associations.

⁵⁹Interview, March 18, 1991.

These differing political responses of German automobile firms to the single market suggest that we should not limit our studies to trade associations or sectors. While trade associations certainly account for a great deal of political activity of business, firms are important political actors in their own right. Moreover, within trade associations, firms may disagree about policy, with the result that an association takes a watered down position on legislation or no position at all. Individual firms may then choose to lobby directly and government officials may turn to firms in order to get information on the impact of legislation on their operations. Concentrating solely on the activities of trade associations or sectors misses this dynamic.

* * *

This study raises several important issues with respect to the study of European economic integration and more generally the relationship between governments and business. First, it suggests that we need to determine when firm level studies are more appropriate and when sector or trade association studies are more appropriate. While the case studies outlined above suggest that firm level studies are important when there are a few large firms with divided economic interests in a sector, trade association studies may be more appropriate for sectors with large numbers of small and medium-sized firms, which are similarly affected by a change in market conditions.

Second, this study contributes to the debate within the European integration literature on the influence of interest groups on integration policy. It suggests that as integration efforts proceed, the major actors on the EC level may not be transnational organizations which push for further integration. Instead, as integration proceeds, there is likely to be increased activity by individual firms and national associations on the European level because European or national trade association representatives may not be able to agree on specific EC policy proposals.

Third, this study suggests that political activity of firms will continue in both Brussels and member states. Some firms will continue to lobby primarily at the national and regional level, while others focus on the transnational level. But the lobbying that occurs at the European level may affect the strategies that other firms pursue as indicated by BMW's decision to free ride on the direct lobbying efforts of Daimler-Benz in the late 1980s. This reinforces the view that firms, trade associations and government officials are involved in a dual level or nested game, in which actions at one level affect strategies at another

level.⁶⁰ In addition, the study suggests that firms may have to undertake different political strategies in the European and national arenas. For example, on the national level, German companies tend to work through their trade associations on industry level issues. Trade association officials are formally consulted by government officials on policy initiatives. In Brussels, there is little that is official, although consultation often occurs. It depends, according to one lobbyist, more on the good will of the directorate general.⁶¹ At the same time, there may be more room for influence in Brussels. As one lobbyist explained, "In Bonn there are seldom large new steps taken. In Brussels, they often create something out of nothing."⁶² In order to effectively influence EC policy, firms may have to learn new ways of lobbying. They will have to rely more on their own initiative and cultivate EC contacts. Such differences between the EC and the national level highlight the need to study the political activities of firms in both arenas.

Finally, this research provides us with clues about how new patterns of lobbying evolve and develop. It helps us to understand the basic decisions that lead firms to engage in new political strategies such as setting up new lobbying offices or building transnational alliances. The next question will be how and why these new patterns of lobbying become institutionalized and what effect they actually have on EC integration policy.

⁶⁰For a discussion of dual level games, see George Tsebelis, Nested Games: Rational Choice in Comparative Politics. (Berkeley: University of California Press, 1990); and Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two Level Games," International Organization 43 (Summer 1988): 427-460.

⁶¹Interview, February 28, 1991.

⁶²Interview, February 28, 1991.

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