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The European Motor Industry

by D. G. Rhys, Cardiff *

The removal of tariff barriers within the European Economic Community has presented manufacturing industry with the opportunity to plan for and to supply a greatly increased home market. This paper is directed at showing how the motor industry, and especially certain firms within it, are in the vanguard of European integration.

Since 1968 there has been a dramatic acceleration in the pace of mergers, cooperation schemes, and rationalisation in the European motor industry. This reflects the completion of the EEC's customs union which has had two effects.¹ Firstly, national producers have tended to cooperate more closely in order to strengthen their enterprises and therefore to be able to withstand the competition from other European producers which followed from the elimination of tariffs and quotas. Secondly, as trading barriers were removed the prospect of creating a truly European industry faced with one large domestic market became a reality. This increased the attraction of creating a European-wide industry through international mergers or by foreign investment.

Merger Policy of European Firms

Following its creation in 1968 British Leyland has improved its European sales organisation and given priority to the expansion of productive capacity in Belgium within the EEC. The Fiat-Citroen plan for a full merger was thwarted by the French government but nevertheless Fiat initially gained a 20 p.c. stake in Citroen which can only be a prelude to a full merger. Daimler-Benz having already absorbed Krupp's truck-marketing organisation absorbed Henschel-Hanomag to maintain its position as the EEC's strongest truck builder. Peugeot's agreement with Renault began to bear fruit in 1969 with the production of a jointly owned engine plant near Lille. In the same year the independent German company NSU was absorbed by VW. Hence the number of separate car (and CV) companies in Europe tended to fall appreciably during 1968 and 1969. From over 40 independent

European car firms in 1960 the typical process of concentration is polarising around one national grouping in each country plus three American firms. This would mean seven firms at the most, one British, one French, one Italian and one German, plus GMC, Chrysler and Ford in Europe.

This process is virtually complete in the UK and France, and this process of concentration was almost complete before it began in Italy, but there is still some way to go in Germany where three significant German-owned firms still remain. Within this movement there could be some international mergers. For instance NSU was sought after by Fiat of Italy, Chrysler of America, Honda of Japan, and VW. In this VW won and the purchase was part of the process to establish one German giant car producer. However in the case of Citroen no agreement could be found which suited either Citroen or the other French firms, as a result of which started the makings of a pan-European firm when Fiat was left as the only saviour of the ailing French concern.

Already by 1969 over 75 p.c. of the entire western European car market was in the hands of just sev-

Table 1
Share of Producers
in the Western European Car Market in 1969
(in p.c.)

Fiat	18.9
Ford	11.6
GMC	11.1
VW	10.6
Leyland	8.5
Renault	8.4
Chrysler	6.5
Others	24.7

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¹ The creation of a customs union is merely a stage in the process of creating a European Economic Community.

en producers (Table 1 ignores the production of cars for export to the rest of the world. This would, for instance, put VW in top place as regards total production but because of the size of the firm's US market it is placed fourth in the penetration of the European market.)

Situation on the Italian Market

At present Fiat is the strongest, most aggressive and most successful European company. Its share of EEC sales has increased steadily over the past four years and currently stands at 25 p.c. compared with Renault's 12 p.c. In every EEC market Fiat leads the list of importers, for instance it is ahead of Opel in France, and in front of Renault in Germany. Fiat's marketing and prices were almost unequalled in the EEC during the later half of the 1960s. The company has been the largest investor in the development of a foreign sales network especially in Europe. This was all part of the company's plan to establish a pan-European enterprise. Although Fiat's present unassailable share of the Italian market may be challenged by Alfa Romeo, and although the sales of 500 cc and 600 cc Fiats in Italy make the company appear more dominant than it is in financial terms, the fact remains that Fiat is the major threat to all EEC domestic producers. This is because of its excellent marketing facilities and because of its profitable Italian base which allows most overheads to be covered from domestic sales, allowing Fiat to sell at very competitive but profitable prices in the rest of Europe. The company can cater for every European market in terms of geography and in terms of income groups. Only Leyland equals Fiat in some respect. Both of them produce the largest range of cars in Europe, and another similarity is that both firms are controlled by a single head rather than by committees. This gives both firms the drive, impetus, and confidence to seek out new markets.

The Market for Prestige Cars

Although most Fiat and Leyland cars are in the family saloon category both firms are in a position to challenge Mercedes' domination of the European market for heavy trucks and prestige cars. On the CV side Mercedes-Benz's dominance has been consolidated by the technical superiority of its products compared with those of the French CV industry. In prestige cars Mercedes Benz retains its dominance, but here its position is being threatened. Until the 1960s only Citroen with superb cars but poor marketing was a real competitor, but now Mercedes faces a real domestic challenge for the first time in the shape of BMW as well as new prestige models from Fiat.

As national income continued to grow at an annual rate in excess of 4.5 p.c. in the EEC the market for prestige cars increased in size. A continuation of this together with traditional expertise in the production and marketing of quality cars should allow Mercedes to hold its current output growth of 8 p.c. a year. However Citroen-Fiat and BMW will also benefit and via the cultivation of a more sporting image aimed at the younger executives and younger middle class buyers, they could seriously threaten Mercedes' leadership. In its current expansionary mood Fiat could even contemplate some technical or financial link with BMW which would create the largest quality car complex in the world. Other firms likely to benefit from the general "trading up" are Volvo and Leyland's Specialist Car Division. The former already has a large export market whereas the latter's problem is productive capacity rather than demand. Rover and Jaguar are faced with heavy excess demand despite the fact that their marketing organisations have yet to tap many potential markets, the EEC being one of them.

The French Market Situation

Renault, a state owned company, forms the nucleus of the French owned car industry. A major step forward in this direction is the agreement with Peugeot to build a joint engine plant and to collaborate on research and the purchasing of materials and components. The companies' model lines overlap to a degree, but most Renault models are in the categories of 1200 cc and below, whereas Peugeot's range is mainly above this. The combined Renault-Peugeot range in 1971 concentrated on seven models, and consequently it did not cover the same range of markets as did Fiat's or Leyland's. Despite this these two French producers manufacture a strong range of family cars noted for quality and technical excellence. This allied to a strong marketing effort had allowed Renault and Peugeot to expand rapidly, and their penetration of the EEC market in the 1960s was second only to Fiat. The individualistic design philosophy of Renault to produce functional vehicles, which were typically French in conception, was nevertheless able to meet the requirements of the wider EEC market.

Volkswagen and the "Beetle"

The other giant European car producer within the EEC is Volkswagen. The success of the company had been built up by one model, the VW "Beetle". Sales of this car were highly concentrated in Germany and the USA, but in Europe the large sales were not as significant as popular mythology would suggest. Furthermore in 1968 and 1969 sales of the Beetle turned down in the USA, but

recovered to a record 560,000 in 1970. The model faced increased competition in Germany. During the 1960s the company attempted to break free from its single model philosophy and now produces three distinct model ranges.

In addition the company has attempted to establish itself in the quality field with its Auto Union-Audi subsidiary, and further such models are provided by NSU. However at a time when the rule of the Beetle may be waning in Europe the new VW models and the original Audi range have not made a comparable impact. Despite the success of the 1969 Audi range VW still remained very dependent on its basic Beetle, at a time when the market may in future fail to generate a growth in "Beetle" sales. As a result a really successful wide-ranging German company capable of meeting Fiat on its own terms may have to await some linkage between VW on the one hand and Mercedes or BMW on the other. If such a German firm is to be an integrated car and CV producer then the only suitable partner for VW would be Mercedes.

The remaining companies which dominate the European motor industry are the American owned ones and Leyland. The latter has been engaged on a major sales expansion "vis-à-vis" the European market, part of which entailed direct investment in Belgium and other parts of Europe.

The American Companies

The American companies have long thought in terms of developing a European market and this was one of the reasons why Detroit established firms in Europe in the first place. In addition the existence of European subsidiaries inside and outside the EEC led to the division of markets, the UK subsidiaries being concerned with the Commonwealth and EFTA whereas the German and French subsidiaries concentrated mainly on the EEC and exports to the rest of the world. In both instances other markets were served but the main division was as stated. In view of this it was rather paradoxical that in 1970 the American firms were faced with the major task of trying to integrate their separate and quite independent European subsidiaries, a separation which had solidified over the years almost to the point of active animosity between British and German subsidiaries. After all the relative success of one was seen as a threat to the continued existence of the other.

The main strength of the US-owned firms was in the field of medium-sized popular mass produced family saloons. It is here that the US firms pose the greatest threat but here also the future growth of the US firms could be less than that of the past.

All three US firms in Europe produce the same kind of car and even in design and body styling they are very similar.² Hence it could be that unless they reverse this trend towards similarity or even homogeneity they will be spending most of their time competing amongst themselves, while the more individualistic European producers tap the market for those customers wanting something different.³

Human nature being what it is suggests that the European market as a whole will move increasingly in the latter direction. As incomes increase people will turn from basic motoring in almost identical tin boxes to basic motoring in the more individualistically styled tin boxes produced by essentially European firms. Hence the emergence of a single EEC market, now including the UK, could find one US firm improving its position at the expense of its fellows, while the European producers as a whole found new markets and thereby improved their overall position "vis-à-vis" the US owned firms. The most vulnerable US firm is Chrysler for all three of its European subsidiaries were financially unsound throughout the 1960s. Rootes in the UK, Simca in France and Barrios in Spain all suffered declining market shares, heavy capital investment for re-equipment, and trading losses. All three firms were too small to find life easy in their home markets, so Chrysler's attempt to overcome this may result in one of the first truly European motor firms.

Europe as One Market

So the Americans must weld their separate companies together in order to rationalise production in different plants and to persuade managements to treat Europe as one market. Ford has started this task with a new management superstructure. In theory UK Ford and German Ford still run their own operations but in practice the new organisational structure tightly circumscribes their freedom of manoeuvre. At present there is no intention of forcing a common car on both operating complexes but this could only be a matter of time.⁴ These initial moves by Ford must point the way to complete integration of European operations by all three US firms.

This will come sooner or later as will the spread of the European giants across national frontiers.

² For instance the 1970 Ford Cortina was almost identical in body styling to the then current Vauxhall Victor.

³ As product differentiation becomes less the market becomes less imperfect and although "brand" loyalty militates against the emergence of a perfect market price differentials may become less. In short the slope of the demand curve becomes less.

⁴ Indeed in 1970 the new Cortina introduced in the UK was almost identical to similar Taunus models, the smaller Escorts and Capris were made in both countries, and steps were afoot to produce a common range of engines.

Car imports in 1970 were already equal to 25 p.c. of total sales in France and to 22.5 p.c. in Germany and they rose sharply in the UK and Italy from 10 p.c. of domestic sales in 1969 to 15 p.c. in 1970. Hence Europe is already beginning to look like a unified market, and firms must judge when contemplating the production of a new car its likely impact in Europe as a whole and then plan its marketing and production strategy accordingly. The needs and wants of a German customer will soon become as significant to a French producer as the requirements of his French customers. How each firm will satisfy this need will vary from firm to firm, but there is no logical reason to suppose that all cars will begin to look alike or to look "European" because different firms will come up with different answers all of which may be equally successful. At present there is no doubt that Fiat is in the van as regards changing its domestic horizons from Italy to Europe, with Renault in second place. The other European and American giants will also come increasingly to the same marketing conclusion, that each firm and market is essentially European rather than French, German or British.

Location of Motor Industry

The location of the European motor industry follows the diverse trend of the US industry rather than the traditionally concentrated UK and Italian industry. The French have long since moved their expansion away from Paris, the largest traditional centre of the French motor industry. In Germany the motor industry is also widespread all over the country. The continental producer has realised that expansion in a traditional centre would require the same degree of training for new labour as expansion in a "green-field" site. After all many German car workers are not soaked in the tradition of working with metal but were refugees from the farmlands of East Germany. Fiat in Turin derives most of their new workers from the underdeveloped peasant-areas of South Italy. This realisation that expansion in a traditional centre means the employment of "green" labour reveals that the firms knew that there was no real hardship caused by moving expansions to new localities.

Thus, the EEC motor industry is expanding in a national and a European context. Its plants spread from La Rochelle in the West to West Berlin in the East, from Emden in the North to Naples in the South. As integration proceeds the American structure will emerge with single plants being built for each major component which in turn will supply numerous body and car assembly plants dotted all over the EEC. Within the national frontiers this process is already at work.

The emergence of a European motor industry is illustrated by the tremendous growth in the number of vehicles manufactured and assembled in Belgium and, to a lesser extent, Holland. This area was the one where abundant supplies of labour were most accessible and where manufacturing wage levels tended to be lower than in the traditional car producing areas. This proved an attraction to German, French and British producers.

Table 2
Belgian Vehicle Assembly and Production Totals
(in 1000)

	1965	1966	1967	1968	1969
Cars	445	476	456	608	784
CV's	21	44	29	27	46

Source: Society of Motor Manufacturers and Traders

The bulk of production is accounted for by Ford, Opel, Renault, and Volkswagen in that order, and these manufacturers accounted for 650,000 vehicles in 1969. The rest of Belgian output is produced by another seven significant producers plus a dozen or so smaller firms. So although Belgium has no domestically owned vehicle industry it has become one of the main sources of supply for satisfying the demands of the EEC and the world at large, and outside the main vehicle producing countries Belgium has the world's largest vehicle producing capability. Increasingly therefore, manufacturers are regarding Europe as one market and plan their investment and production accordingly.

Increasingly, however, the expansion of the motor industry is coming up against a labour supply constraint. One European car executive put it this way, "In Germany we have to find Turks to build cars, in Holland they use Moroccans, French cars are built by Algerians and North Italians, and in North Italy they use South Italians". After the tremendous expansion of the late 1960s there is not much slack labour in Belgium and indeed a large number of North Italians and Greeks are being induced to move into Belgium in order to satisfy the needs of the labour intensive car assembly lines. Consequently European firms are casting envious eyes at the only large pool of unemployed labour in the Northern Europe of 1971 — the almost one million jobless in the UK. This indicates that British membership of the EEC could bring substantial foreign investment in establishing car manufacturing and assembly facilities, especially the latter which is the relatively labour intensive sector of the motor industry, but is where the highest wages are earned.