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Protection for the European Car Industry?

The idea of Project '92 is to advance the EC from a customs union to a single economic area. At the same time, the Community does not want to be a "fortress" but a "partner for the world", without however forfeiting its "identity". While there is broad agreement as to the internal goal and the way to achieve it, the catchwords relating to external relations conceal major differences of opinion between member states. These disagreements are particularly evident in the issue of Japanese access to the EC's automobile market. The example of the car industry also illustrates the close correspondence between foreign trade arrangements and the attainment of the single European market.

The fragmentation of the European car market is clearly reflected in the huge price differentials amongst the national segments. In Italy, for instance, the purchaser of a 43 kW Fiat Uno S has to pay 60 % more than in Denmark (before tax). In the United Kingdom the average price of a new car – again before tax – is 31 % higher than in Belgium. The actual price differentials well exceed the 12 % maximum set by an EC regulation in 1985, which also reinforces the right of the consumer to purchase a car wherever he wants to. In reality, though, selective distribution systems of the carmakers place severe constraints on free consumer choice in the Community. Arbitrage between the markets is also spoiled for the buyer by the disparate technical standards (including emission regulations) in the individual countries. One reason why these regulations are difficult to standardize in the EC is that not only EC manufacturers would benefit; suppliers from non-member states would also profit. France in particular has repeatedly lodged objections to this.

The completion of the single European market is intended to help make sure that the "law of one price" prevails in the EC. In addition to a strict competition policy, the introduction of a European type approval system for automobiles as of 1 January 1993 is of particular importance in this context. A new model that has met any member country's national requirements for approval would then have to be allowed to be sold throughout the Community without any further controls. This would be a major step towards greater transparency and competition on the European car market.

At the same time the removal of the technical barriers to trade permits of a substantial cut in production costs in the car industry. Further cost reductions will result from the planned abolition of all internal border controls and benefits will also be reaped from a greater exploitation of comparative cost advantages gained by shifting production within the Community. If we also consider the dynamic effects of integration engendered by the growth in market volume, the single market offers a unique opportunity for European car manufacturers to improve their international competitiveness.

According to Article 110 of the EEC Treaty, the improved competitiveness resulting from an internal integration of the market should also have a conducive effect on market access for non-member countries. However, of the five member states (France, the United Kingdom, Italy, Portugal and Spain) that presently impose national restrictions beyond the Community tariff protection (some 10% of import value) on imports of Japanese cars only the United Kingdom is prepared to accept a rapid liberalization without a compensatory shift of protection onto the Community level. In this respect, the United Kingdom is in agreement with

the Federal Republic of Germany, the biggest and internationally most competitive car producer in the EC, as well as with the Netherlands, Luxembourg, Denmark and Ireland – countries that are exclusively or mainly importers of cars.

In contrast, the other four countries, headed by France and seconded by Greece, want to dismantle the national import constraints gradually over a long period and at the same time introduce a global quota for all EC members. This should include not only car *imports* into the EC from Japan but also the *production* of Japanese models in Europe, as long as the EC's local content does not amount to at least 80 %. Finally, access to the EC market is to be made contingent on easier access to the Japanese market of European cars.

Assuming the intra-EC border controls are actually removed by the end of 1992, the desired channelling of Japanese car exports in accordance with differing national sensibilities in the EC could only be practicable if either Japan itself precisely directed the trade flows or if the EC countries concerned curbed Japanese car imports by means other than border controls. Both alternatives would inevitably entail substantial interventions in internal EC trade and thus clash with the goal of a genuine single market. After all, Article 8 A of the EEC Treaty stipulates that "the internal market shall comprise an area without international frontiers in which the free movement of goods, persons, services, and capital is ensured".

With the inclusion of the output of EC based Japanese car factories (transplants) in the required quota, the thorny problem of local content would appear at first glance to be settled: irrespective of the amount of local content, the transplants would no longer be subject to any constraints as to their exports into the EC; Nissan's Bluebirds, which ignited the intra-EC quarrel on local content, and all new models from Japanese transplants in the United Kingdom could be transported unhindered to France and Italy. This result, however, will do little to offset the deterrent effect on potential investors. At a given overall volume and faced with the choice of producing in Japan or in Europe, the Japanese carmakers will opt in the case of doubt for the more secure location in Japan and the EC will forfeit the only advantage that trade restrictions could have, i.e. a revitalization of competition within the EC resulting from the appearance of foreign investors as additional suppliers. Besides, there is nothing to prevent Japanese car producers from attacking the EC market from non-member states. The original – quite logical – demand of the EC hardliners to include Japanese transplants in the USA in the restriction is no longer being voiced for fear of a transatlantic trade war. In future, Eastern Europe could also develop into an attractive location for the Japanese car industry with the EC as the target market.

Finally, the reciprocity requirement directed at Japan does not do justice to the facts. The Japanese car market is comparatively open. Unlike the EC, import duties are not levied and the previous administrative barriers (especially discriminatory test and approval procedures) have been largely dismantled. The openness of the market is also evidenced by the remarkable export successes of competitive manufacturers. After the USA for example, Japan is now the second largest export market of the Daimler-Benz AG. If Renault, PSA or Fiat have not succeeded in establishing themselves on the Japanese market, the fault lies primarily with themselves. The demand for reciprocity is more a pretext to postpone the opening of the European market to Japan into the distant future.

Though unconvincing, the arguments of the protectionists look very much like gaining the upper hand. Japan could live with a global quota: it would assure Japanese manufacturers impressive producer rents, the present trend to higher class vehicles would be re-inforced and the Japanese car industry could compensate on third country markets, where demand is expected to be at its greatest. From a European standpoint a protectionist solution, in contrast, would not only be detrimental at an overall economic level, and would not only penalize the consumer; it would not be in the genuine self-interest of the car industry itself. The chance provided by the single European market to enhance international competitiveness would be lost and hence the prospects for the industry of recovering its earlier world status.

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