

Mergers and alliances in the auto trade

The European automotive industry is going through a major restructuring process. For example, Ford Motor Company took over Jaguar, VW bought SEAT, and British Aerospace bought Rover. Volvo and Renault have signed a wide-ranging strategic alliance and the luxury builder, Saab, formed a joint venture with GM.

Equipment manufacturers are forming numerous alliances and joint ventures as well. For example, Renault and Peugeot are joint owners of Société de Transmissions Automatique which produces automatic transmissions for both companies.

The Japanese have been particularly active in the auto field. Honda was among the first when it formed a joint venture with British Leyland. Mazda, which has been linked up with Ford for some time, has decided to make use of Ford's factory in Germany to establish itself in that country. Nissan has built a factory in Sunderland, U.K.; Toyota plans a car plant in Derbyshire; and Honda is to build a plant at Swindon, U.K.

Structure

The European automotive industry evolved within a framework of technical, fiscal and physical barriers. While these regulations protected local producers from other European and non-European competitors, they also encouraged the survival of companies that are no longer internationally competitive.

Six major full-line manufacturers hold similar shares of the EC passenger car market: Volkswagen, Fiat, Ford, GM, PSA, and Renault. The Community also has a number of highly profitable companies that produce luxury cars: Daimler-Benz, BMW, and Porsche.

The EC automotive components industry has been highly fragmented. The Single Market is now encouraging a more diversified pattern of procurement and is resulting in pan-European alliances in the component sector. As vehicle assemblers look to suppliers from other EC Member States, the greatest impact is being felt by small- and medium-sized European components manufacturers.

Markets

The EC is the largest market for cars in the world. Five years of record sales peaked at 13.4 million cars in 1989 but steady growth came to an end in 1990 when new car sales fell 1.1% in the first 11 months. Sales in Germany continued to rise in 1990, but they were poor in the U.K. and Spain, as both of those economies went into recession. Demand is expected to remain strong in Germany, but to fall in other European markets, as well as in North America.

Commercial vehicles present a similar picture. After five years of record sales, the European truck market is in a downturn. The German truck makers, Daimler-Benz and MAN, are doing very well, but the steep downturn in the U.K. and Spain has hit British and Spanish manufacturers hard.

European production of trucks with a gross weight above 3.5 tonnes was down 10.7% in the first eight months of 1990. The U.K., Spain, Sweden and Netherlands have been hit the hardest. With the continuing exception of Germany, EC truck production is expected to keep dropping in 1991.

Outlook

Europe's automobile manufacturers may claim engineering and design leadership in some areas, but their overall competitiveness is poor by North American and Japanese standards. With the exception of luxury car builders who export to all parts of the world, sales by EC producers are restricted to European markets such as Spain, Italy or France.

In the medium term, the EC automotive industry is expected to suffer from the present recession. In the longer term, sales should pick up as a result of the emerging Single Market, rising demand from the East European market and calls for environmental protection. Analysts are forecasting a much brighter picture for 1992 to 1995.