

In spite of the presence of a number of large, international companies, the European components industry comprises mostly small and medium-sized companies. The average size of the 1 500 major suppliers in Europe is only 400 people, and 55 per cent of these enterprises employ less than 100 people. Only 8 per cent of companies have more than 1 000 employees, although these firms account for 60 per cent of total employment. In fact, 25 leading firms account for 40 per cent of total automotive parts production in the EC.

This continuing industry fragmentation is due in part to the nationally based nature of parts procurement. Although intra-EC trade has increased quite rapidly in this sector, most vehicle manufacturers source largely from their domestic suppliers. For instance, Daimler-Benz procures 90 per cent of its equipment from West Germany, Austin Rover 87 per cent from the U.K., and Renault 70 per cent from France.

Most component suppliers, particularly the small and medium-sized ones, are dependent upon their national car producers.

Evolving Environment for EC Parts Producers

The EC automotive industry search for increased competitiveness implies, amongst other things, a fundamental change in the nature of relationships between automobile manufacturers and component suppliers.

As is the case in Japan and North America, EC vehicle assemblers are increasing their outsourcing and passing to their suppliers (first tier and/or affiliated specialized companies) the responsibility for product development, manufacturing and quality assurance functions.

The result is that many smaller EC suppliers will come under pressure. At all levels there are bound to be many more mergers and joint ventures to reduce development costs, and a considerable "shake-out" is unavoidable as the industry concentrates into larger units achieving greater scale economies.

Obviously much of this restructuring is already taking place. Vehicle manufacturers are cutting back on their number of suppliers and offering longer contracts and closer co-operation to "preferred" component producers.

For example, the following reductions in supplier numbers have taken place:

- . Ford of Europe -- from 2 500 to 900 in past five years
- . Renault -- from 1 415 to 900 since 1985
- . Austin Rover -- from 1 200 to 700
- . PSA -- from 2 000 in 1981 to 950 by 1988

In the 1990s, the number of suppliers will become even smaller, as single sourcing could become a normal practice. The "preferred" suppliers will increasingly sub-contract to smaller producers, leading to the development of a tier system, a little like the Japanese model.

d) New Sources of Competition for the EC Automotive Industry

Japanese Vehicle Production in the EC

Nissan (U.K.) is planning to produce 200 000 cars by 1992, with 80 per cent EC content. Honda now has its CKDs (Completely knocked downs) assembled in the U.K. by the Rover Group. It supplies component kits for