

imports. Speculation is that the transition period will last about five years, but will allow some growth in Japanese imports. Restraint would not take the form of quotas, but rather some sort of export monitoring on the part of the Japanese, who have already indicated that they would likely co-operate.

With regard to imports from Japanese transplant facilities in North America, the Community appears to have reached the conclusion that these would not be included in any restraint agreement. It is expected that any vehicle considered by Canada and the U.S. as being "North American" under the Free Trade Agreement would be considered North American for purposes of import to the Community.

Local content. The local content issue revolves around the question of whether a certain minimum mandatory percentage should be fixed for European content in foreign cars manufactured or assembled in the Community. Local content appears no longer to be an issue. The European Community apparently has no intent of introducing local content provisions for the auto industry and indeed, Nissan and Toyota are both expected to reach 80 per cent content, which is a level well in excess of any level that could be attacked in the European Court of Justice.

Local content only becomes an important trade issue when used to block imports from third countries, thereby impairing their GATT rights.

Abolition of border barriers. Border controls between Member States result in significant costs for automotive producers in the EC. Direct costs arise from meeting existing border formalities; indirect costs occur because of delays, which influence inventory, buffer stocks, etc.

The abolition of frontier controls and formalities that slow the physical movement of goods will, therefore, result in important cost and efficiency improvements. These improvements should accrue to European firms and importing firms alike.

## 2.3 Structural Changes in the EC Automotive Sector

### a) Vehicle Manufacturers

EC vehicle manufacturers are now facing the most challenging and competitive period in their history. The creation of the unified internal market will further boost internal and external competition which in turn will change the face of the industry. Companies will continue to restructure, merge and pursue other forms of strategic alliances. Although the market is not expected to grow by more than 1 to 2 per cent per annum, it should continue to be the largest world market for passenger cars with scope for growth (in terms of value), as European consumers shift to more upscale cars. All major world players will treat the EC as an "open play" market and strategies under development will be aggressively implemented.

Despite the current apparent good shape of the industry there are signs of uncertainty about the future. In particular concerns centre on:

- the inadequate scale, profitability and financial capability of several operators in light of investment requirements planned for the near future;
- the instability of competition between six nearly equal volume producers which, coupled with increased penetration of non-EC producers, should result in growing pressure over profit margins;