Notre Europe
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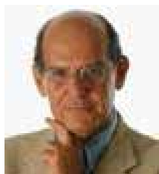
Policy Brief
N°10
April 2009

A Rescue plan for the European Automobile Industry ?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After striking the financial markets, the crisis has now spread to the entire global economy. Governments are being increasingly pressured to aid the industrial sectors most affected by the crisis. This issue has had complex repercussions on the functioning of the internal market. Many economists—while in favour, under the present circumstances, of state interventions in the financial sector and of those aimed at sustaining consumptions and investments—are challenging the need to implement sectoral measures in industry.

The "industrial policy" concept has long been a source of debate within the European Union. The founding treaties impose very strict constraints upon Member States in terms of government aid, freedom of establishment and non-discrimination, but they are explicitly neutral when it comes to the methods of ownership of enterprises. As the internal market was drawing closer to completion, the European Commission tightened its control over rule enforcement, while market integration led to greater internationalization of European companies. All of these factors, added to the liberal wind which has been blowing throughout the global economy since the 1980s, and the budgetary constraints stemming from the implementation of the Stability and Growth Pact (SGP), have induced many governments to undertake massive privatization. Partisans of state control have thus been deprived of their primary means of intervention. The sectoral aid schemes have also almost entirely disappeared. Proponents of an interventionist industrial policy have occasionally argued that the intervention capacity lost at the national level should be exercised at the European level; yet few have taken them seriously. The notion of "national champions" is still very much on some people's minds, but over the years, a certain consensus has developed around a so-called "horizontal" industrial policy concept. Rejecting state control, this concept is based upon measures aimed at increasing the competitiveness of the entire industrial system: support for research and innovation, active labour market and vocational training policies, promotion of competition, support for SMEs, etc. The Lisbon Strategy is a good example of this. The current crisis is causing the role of the state to be viewed in a new light; it has not totally called into question the consensus which had developed around the industrial policy, but it did highlight new contradictions and unprecedented protectionist threats. The automobile industry is the core focus of this debate.

A « spécial » Sector

The European automobile industry remains one of the best in the world. In the last few decades, it has become globalized: all European automobile manufacturers have opened production sites in other countries and several foreign manufacturers have set up plants in Europe. Not a single French manufacturer has shown signs of going into bankruptcy, as it is the case in United States. Yet they are plagued by a host of problems: a recession-induced decline in demand, a cash flow problem caused by credit restrictions—particularly serious for a sector which relies upon consumer credit; growing competition from countries whose production costs are considerably lower; technological challenges posed by the need to develop vehicles which are less petrol-dependent and produce lower emissions; the

inadequate size, according to some observers, of European automobile manufacturers; and lastly, an overcapacity problem. Many believe that this situation does not call for any special measures. They invoke the danger of protectionism, of competition distortions and a risk of contagion for other sectors. On the other hand, according to those favouring sectoral intervention, although some of these difficulties are also shared by other sectors, none of the latter are experiencing all of them, or doing so with equal intensity. The weight of the automobile industry in the economy as a whole is without equal: 8% of the total added value and one-third of industrial employment, if we include the whole sector. The sector is furthermore a major driver of innovation: new materials, electronics, telematics. All of these arguments may be disputable, yet one of them, of a political nature, settles the debate: inasmuch as the other major automobile-manufacturing countries, the U.S. and Japan, are determined to intervene, Europe cannot remain idle without compromising its future in this sector. So it is not a matter of deciding whether or not the European automobile industry should receive help—it already is. What is really at stake is to understand how such intervention can be effective without jeopardizing the functioning of the internal market.

Several countries have already taken measures based upon a diverse mixture of research subsidies and scrapping incentive linked to the purchase of cleaner vehicles, and credit facilities for companies and consumers. These measures promote an industrial and social approach; in fact, they even seem to produce good results in some cases. However, even in their limited and cyclical form, they are likely to create distortions (between large and small manufacturers, for example). The danger is particularly evident if the aid is tied to obligations to safeguard jobs in—or even "relocation" to—the manufacturer's country of origin. This does not just concern competition-related distortions. It is expected that the U.S. and Japanese industries will emerge from the crisis by means of an in-depth restructuring which will cause them to experience broader concentration. Competition from new—and particularly Asian—countries is bound to intensify and nothing suggests that the latter will be any less capable than Europe is of developing cleaner vehicles. Refocusing European manufacturers on their country of origin, on the other hand, would make the industry too fragmented to successfully compete on a global scale.

The Commission intervened within the scope of its responsibilities to limit the risks of distortion, but it is reacting after the fact and in response to increasing political pressures. The measures undertaken to date are mainly intended to support the market, yet by definition they have a short-term effect: should economic recovery be delayed, they would become ineffective. Moreover, such measures are not capable of solving the sector's structural problems; to the contrary, inasmuch as they impose policy constraints upon a restructuring which should comply with industrial criteria, the constraints could very well make such difficulties worse. What would happen if a manufacturer were forced to close down some factories? Would it be free to decide upon their future location based solely upon industrial criteria? Furthermore, the technological reconversion will prove costly but necessary, especially as the recession will likely be followed by a new wave of soaring oil prices. Therefore the Commission should not confine itself to assuming the role of a guardian of national interventions, but must take on a more active role. Proof of the need for joint action can already be seen in General Motors' formal request, impossible to meet, that the governments of the countries in which its factories should finance their rescue. The current institutional environment is not propitious for a joint financial intervention by the European Union acting on behalf of the states. Even if it were possible to expand available resources in its budget, the share of it which could reasonably be allocated to the automobile industry would not justify the effort required. Alternative theories therefore need to be explored.

Precedents Set by the Steel Industry

In the mid-1970s, in the aftermath of the first oil shock, the European steel industry entered an exceptionally serious crisis. Propelled by the uninterrupted economic growth of "The Glorious Thirty," it had invested in new capacities by relying upon what would turn out to be overly optimistic projections. Some companies went into debt to finance investments which were later found to be obsolete even before production start-up. In some countries, the state still held a majority stake in the companies' capital. The leading integrated steelmakers, who relied on continuous casting technology, had been reluctant to adapt to new methods based upon electric furnaces, which utilized smaller and more flexible production units. New Asian competitors emerged. A collapse in prices ensued which sometimes fell to a level below that of production costs. In certain regions, these events had a dramatic social impact. Political tensions were inevitable between private-sector producers (and their countries' governments) and those who, being state-owned, were, by definition, better protected. The ECSC Treaty, which laid the foundation for the restructu-

ring of the steel industry, was the product of a war economy and therefore more interventionist than the Treaty of Rome. It called for the Commission to periodically formulate "general objectives" designed to guide business investments; in the event of a crisis, the Commission could, under the control of the Council, impose minimum prices and production quotas. However, when this crisis actually broke out, this powerful apparatus proved obsolete. The services assigned to the ECSC within the Commission were few and outdated, such as the "Desert of the Tartars" garrison. The "general objectives" had become little more than a bureaucratic exercise.

Reaction to the crisis was slow. The Commission had to adapt and equip itself with analytical tools equal to the challenge. It took governments and the industry time to become fully aware of the situation, with each of them believing that it could survive better than its neighbour. Some countries were reluctant to accept European measures which they viewed as interventionist and all of them wanted to protect "their" producers. Establishing intervention tools was therefore a very gradual process. The minimum prices set very quickly proved inadequate and difficult to enforce. The production quotas, an even more painful measure, were effective, but only when accompanied by a restructuring and capacity-reduction programme. The "Davignon Plan" implemented in the 1980s was founded upon an innovative concept which exceeded the strict framework of the ECSC Treaty: a system of diverse types of national aid, authorized by the European Commission and approved by the Council in exchange for restructuring plans—in other words, the implementation of a state-controlled "crisis cartel." The consensus was fragile and negotiations were often heated, requiring the Commission to demonstrate strictness and political dexterity. After a few years, the European steel industry emerged more compact, more transnational, almost entirely privatized and more competitive. Having reached a consensus on which policy to pursue, the Commission managed to negotiate agreements with the U.S. and Japan. This was a triumph for European industrial policy, attributable to the Commission's determination but also to the fact that the governments and the industry had become aware that the cost of joint action would be less than that of pursuing an "each country for itself" policy.

A model for the Automobile Industry?

Simplistic parallels should always be made with caution. The automobile industry is more complex than its steel counterpart, and its sub-sectors more extensive. Minimum price and production quota systems could not apply to it. The most important lesson learned from the Davignon Plan is method: a joint action model in a sector faced with restructuring needs which call for state intervention. Moreover, the highly interventionist—and dangerously protectionist—plan currently being contemplated in the United States is in many ways similar to the concept of a "European-style" crisis cartel.

Thus it might be anticipated that any new form of aid—except for those earmarked for research—may be authorized by the Commission in exchange for a restructuring plan to be presented by the company concerned, then verified and approved by the Commission after consulting the Council. The environment-related objectives should be assigned a priority role in this assessment. The granting of aid tranches would be tied to compliance with the commitments made by the Commission and the state(s) concerned. The system would have to cover all manufacturers located in Europe, irrespective of their nationality. Consideration of foreign manufacturers' interests, however, could be subject to a condition of reciprocity. Trade unions should be associated with it, but only on a European basis, in order to avoid any protectionist tendencies. The aid would be national and all countries concerned by the restructuring should contribute to it; however, some solidarity mechanisms in favour of countries in financial difficulties, particularly among the new members, could be anticipated. Any resources made available at the European level should preferably consist of socially oriented interventions, as well as aid to struggling countries.

A decision would also need to be made as to whether, and under what conditions, the intervention might be expanded to include the auto parts industry. What must be avoided at all costs is for the states to take back an equity participation in the companies' capital, which would be inconsistent with the sector's consolidation requirements at the European level.

Implementing such a mechanism implies a consensus between the Member States and the automobile industry with respect to the nature of the crisis and the means to deal with it, which is not yet the case. Is there overcapacity? Who should be responsible for reducing it? Should there be a "European" automobile industry or an automobile industry "in Europe"? As with the

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steel industry, that will take time. The European Commission could, however, initiate the process immediately by taking a certain number of initiatives which fall within its scope of responsibilities. Failing to do so, the governments could be forced to appoint a "Car Czar" of their choice—a clearly less efficient solution. The trend typically followed by European policy is that when the Commission fails to take the initiative, the governments which have objected to joint action are the first to chastise it for its inertia and lack of authority.

Recommendations

• The European Commission must set up an ongoing consultation with the Member States without delaying until it is compelled to react to new national initiatives.

• It must establish a framework for consultation with the industry at the highest level.

• In order not to be shackled by state and industry analyses, it must, first and foremost, improve its own knowledge base.

• In exercising its responsibilities in matters of trade policy, it must take an uncompromising public stand with respect to any display of protectionism on the part of other countries.

• Lastly, the sector's problems involve competences (competition, industry, environment, etc.) which are matters that concern various services within the Commission. It must therefore be coherently organized in order to speak with one voice.

L' Unione Europea: una storia non ufficiale, *2008, 327 p., Longanesi.*

« L' Unione Europea: una storia non ufficiale »

The European Union—this great innovation of the second half of the 20th century—has demonstrated its attraction power by expanding from 6 to 27 countries and by its economic successes. Yet it is now finding it difficult to decide what path the political union ought to follow: should we be asking ourselves whether European integration, as conceived of until now, may be the remnant of a world which ceased to exist with the end of the Cold War and globalization? Shouldn't those who advocate pursuing integration accept the fact that further progress first needs to be made with a limited number of countries before it can be achieved with others?

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Education and Culture DG
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