European car market: individual trade policies and protectionism

Paola Drei

RICERCATORE DELL'I.S.T.I.E.E.

Quest'articolo esamina le politiche commerciali dei paesi dell'Unione Europea impiegate per limitare l'importazione di automobili dal Giappone.

Dopo l'entrata in vigore del mercato unico, l'Unione Europea e il Giappone hanno deciso di eliminare le quota che regolavano, in alcuni paesi dell'Unione, l'importazione di automobili giapponesi e le hanno sostituite con un'unica quota comunitaria, per il periodo dal 1993 al 1999.

L'analisi del negoziato tra la Commissione Europea e il Giappone suggerisce che gli interessi economici di alcuni governi e dei rappresentanti delle industrie nazionali automobilistiche hanno esercitato una forte infuenza sulle dicisioni prese dalla Commissione.

L'articolo cercherà inoltre di dare una risposta alla domanda se, nel mercato unico, è ancora possibile per un paese dell'Unione proteggere il proprio mercato automobilistico dalla concorrenza di paesi terzi come il Giappone.

Some European Union (EU) countries have for many years curbed imports of Japanese motorvehicles by pressuring Japan to adopt voluntary export restraints (VERS) and approval of the Single European Act, in 1986, has brought new challenges to member States determined to continue protecting their domestic automobile companies from Japanese competition.

Under the terms of the Act, all member States were obliged to remove restrictions on the movement of goods within the Community by the end of 1992.

One of these restrictions was the so-called "block exemption", which was an exemption to EC competition law, granted to the car industry in 1985 for ten years. The exemption allowed manufacturers to impose highly restrictive agreements on all their dealers.

Under it, for instance, Peugeot, Volkswagen, Fiat or Ford of Europe could prevent their dealers from taking on a second brand. Moreover, the block exemption prohibited dealers in one country from advertising in another. It also restricted companies from buying, for instance, 1000 cars at a time in Denmark and reselling them in France. In Denmark, manufacturers demanded that their Danish dealers gave first priority to local customers, and arranged deliveries so that the dealers had few cars left for foreign buyers.

Since numerous European Community (EC) governments did not impose quotas on auto imports from Japan, the obligation to remove restrictions would enable Japanese firms to export vehicles to the protected EC countries, via non-restricted Community's markets.

In addition, of course, completion of the Internal Market raised the prospect that Japanese transplant factories would produce cars in one EC country (United Kingdom, for example), and then freely ship them to other EC countries (France and Italy, for instance). Thus, national measures affecting trade with non member countries were not efficient anymore and had to be abolished.

The representatives of the car industry had been demanding, during the years preceding the implementation of the single market, that existing bilateral national quantitative restrictions had to be substituted by some Community measures "equally restrictive".

The European Community and Japan agreed on July 31, 1991 to replace the different national quantitative restrictions by a restriction on overall sales of Japanese cars, off-road vehicles, light commercial vehicles and light trucks in the EC between 1993 and 1999.

According to the compromise reached in 1991 (a "voluntary trade restriction"), annual ceilings are imposed on imports of Japanese cars. Within this quota, the European Union and Japan set out annual national ceilings for markets which were considerably protected before 1991.

Although the Community has reached an understanding with Japanese producers that imports will be completely liberalised after a transition period ending in 1999, it is likely that Japanese cars imports will remain limited to their present level if the Community industry faces difficulties by that date.

The Japanese share of the EU market is allowed to increase from 11 per cent in 1991 to 16 per cent in 1999.

The agreement is "voluntary" for a reason: it would be strictly illegal, both under the open border policy of 1992 and WTO (World Trade Organisation) rules, if the EU imposed an import quota on Japanese cars. While, if a country "spontaneously" renounces to export a greater amount of cars, the *pro forma* of respecting the international laws is safe.

The phases of the agreement

The car industries' position

The six group of firms which accounted for the great majority of western European car production in 1990, were: the Volkswagen Group (Audi, Seat and VW); PSA

(Peugeot, Citroën); the Fiat Group (Fiat, Lancia, Alfa, Innocenti, Ferrari); the General Motors Group (GM/Opel, Saab); the Ford Group (Ford, Jaguar); and Renault.
During the 1980s many European car makers pressed for arrangements to secure public protection from greater Japanese competition through the 1990s.
Most determined to call for protection were, of course, those firms whose competitive positions were weakest and that felt more vulnerable to the challenge from Japan.
More than any other figure, Peugeot Chairman, Jacques Calvet, openly and vigorously required such protection. Calvet called for strict limits on Japanese auto firms' participation in the European Community after the projected completion of the internal market in 1992.
Joining Calvet in calling for substantial protection were, among others, Fiat Chairman Gianni Agnelli and Renault Chairman Raymond Levy. Not all car-makers in Europe required protection from Japanese cars, however. Perhaps, more notably, the German luxury car specialists Mercedes, BMW and Porsche believed that they could effectively compete against Japanese car-makers even in a unified EC market, and worried about the implications of protectionist moves in Europe for their own vehicles sales in Japan and especially in America.
Carl Hahn, VW's Chairman, understood that Japanese producers represented a major challenge to VW, but opposed restrictions mainly because he believed that the rigours of the open market ultimately would strengthen VW and the rest of European car industry.
The British Rover Group had previously entered into a strategic alliance with Honda, and later sold 20 per cent of its equity to that Japanese producer. With this relationship in place, Rover refused to join those pressing for protection.

Member countries' positions

The Japanese automobile challenge to the unifying European Community brought long and complex negotiations involving numerous players from the EC and Japan.
The MITI (Japanese Ministry of International Trade and Industry) officials represented the Japanese side in bilateral talks. Bilateral negotiations on the European side were led by the Commission's Directorate General for External Relations (DG I), the Internal Market and Industry (DG III), and, to a lesser extent, the Competition Directorate General (DG VI).
Moreover each government sent representatives to the Council of Ministers, the Community body which held formal power over the actions of the Commission.
Despite the central role of the Commission in initiating the first stage of the process, the critical direct and indirect roles of member States soon became apparent.
The positions of these states initially divided into four principal groups. Least influential in this process were the six states without significant domestic auto industries: Belgium, Denmark, Greece, Ireland, Luxembourg and the Netherlands. These states would gain little, if anything, by limiting Japanese cars in the EC after 1992, but chose to remain largely silent throughout the long process, hoping, probably, to profit afterwards of the help accorded to their EC partners.
The UK held a second position. It did no longer represent the interest of a domestic auto industry and decided to host the local subsidiaries of the American firms Ford and General Motors and also the newly arrived and growing Japanese plants of Nissan, Toyota and Honda. In their talks with the Commission, UK representatives favoured complete freedom for Japanese transplants to produce and ship their goods throughout the Community while they asked for some kind of restriction over auto imports coming from Japan.
The so called "Latin four" of France, Italy, Spain, and Portugal were home to very important car makers that felt strongly threatened by Japanese competition.
The German government represented a fourth position during the first stage of the process: they were conscious of the possible future leading role of Japan car industry but they opposed controls on Japanese cars, relaying on their own capacity to face the Japanese challenge. Afterwards, though, they started to fear the new Japanese luxury line such as the Acura (Honda), the Infinity (Nissan), and the Lexus (Toyota) and they asked for a certain number of protectionist measures.
In the first stage of the process, Fiat, Renault, Peugeot and VW chiefs were unsuccessful in building up a common position, in particular because of Calvet's request to find always tougher measures against the Japanese presence in the Community market. This failure brought about the decision to vote, inside the new "Association des Constructeurs Europens d'Automobiles", by majority rather than by unanimous vote. Calvet, realising that, alone, he could no longer block the decisions of the other industry members, decided not to participate in the new Association.
This new Association easily managed to agree on a common position towards the Japanese. They asked for a long period of transition, for clear limits on Japanese transplant production; they also called for a division of the market growth between Japanese and European producers, a decrease in Japanese volume if the market contracted, and a Japanese market share of about 15 per cent by the end of the transition period.
At a national level, the "Latin four" formed a blocking coalition to prevent any accord which they considered too soft towards Japan. Specifically, these member States, largely following the interests of their domestic auto firms, demanded a minimum seven years transition period from January 1993, changes in the agreed import level if the market fell and they strongly pressed to include Japanese transplants production in any final accord.

The Japanese, on their hand, firmly reacted against any clause that aimed to limit the number of cars which could be produced by Japanese transplants.
A compromise was found when the Cabinet of the EC Commission President Jaques Delors suggested to find a link between levels of transplant production and Japanese imports in the Community; that is to find out a way to include, in the number of Japanese cars, those produced in Europe. In exchange, the Commission agreed to drop a number of other outstanding issues. For instance, the possibility of an access to the Japanese market which was a measure sometimes advocated by EC members. To persuade the French to go along, the Commission promised future financial assistance for the restructuring of France's auto industry.

The results of the agreement

The "Elements of Consensus"

The agreement consists of a bilateral document, the so called "Elements of Consensus", which sets forth a series of goals and measures concerning Japanese motor vehicles in the EC to the end of the decade. The Commission and the Japanese government agreed with three common goals: first the progressive and ultimately, full liberalisation of the EC vehicle market; second avoidance of EC market "disruption" by Japanese vehicle exports, and third, a Japanese contribution to enable EC manufacturers to attain adequate levels of international competitiveness by the granting of a transitional period during which Community markets would remain regulated.
To achieve these goals the two parts set out the Japanese participation in the EC car market. First, the Commission pledged to ease relevant national restriction taken under Article 115 of the Treaty of Rome[1], no later than 1 January 1993. Second, the two sides agreed that Japan should have imposed a ceiling to its export to the EC as a whole and to each restricted EC market till December 1999. Specific export levels were provisionally set out for the 1999 calendar year. These levels, however, were based on market forecasts, and both sides agreed that changes in the market conditions would bring revisions in Japanese export limits. Third the document addressed the issue of the Japanese transplants in the Community. In one part of the document, the Commission claimed that the EC would impose neither "restrictions on Japanese investment" nor controls on the "free circulation of its product in the Community". At the same time, however, the Japanese promised to take into account that concentrated sales of motorvehicles in specific national markets would create "market disruption" and frustrate the EC efforts to attain international level of competitiveness.

	Japanese market share through imports 1989	Market share ceilings on Japanese exports 1995	Anticipated Japanese market share through imports 1999	Total anticipated Japanese market share 1999
France	2,8 %	3,9 %	5,3 %	7,0 - 11,0 %
Italy	1,41 %	3,1 %	5,3 %	7,0 - 11,0 %
UK	11,3 %	8,5 %	7,0 %	20,9 - 26,9 %
Spain	1,6 %	3,8 %	5,3 %	12,1 - 16,1 %
Portugal	13,8 %	11,6 %	8,4 %	16,5 - 21,5 %

Table 1. Japanese car market share in 1989, 1995 and anticipation for 1999
Source: Journal of Common Market Studies (Vol. 32, 4)

Finally, the document contains the conclusive declarations of the EC Vice President, Frans Andriessen, and those of the MITI Vice Minister, Eiiche Nakao. Andressen stated that the Commission had promised the "working assumption", that Japanese European transplants would produce, for sale in the Community, roughly 1.2 million vehicles by the end of the transition period.
Nakao, on its end, did not deny the assumption directly, but reminded Andriessen that the Commission had promised not to restrict Japanese investment and European transplant production in any way.
The Commission's working assumption on total transplants sales in the Community, together with estimates of total Japanese exports contained in the Elements of Consensus, suggested that Japan would capture roughly 16.1 per cent of the total EC automobile market by 1999.

Interpretations of the agreement

Conclusions of this historic accord did not put an end to disputes over the Japanese penetration of the EU market. On the contrary, conflicting interpretation of the accord are still causing disagreements between contracting parties. On one side stand some of the Latin four hard liner, who insist that the accord contains strict upper limit of 1.2 million cars produced at Japanese transplants through the 1990's. Not surprisingly, Peugeot's Chairman is the strongest supporter of this view.
Opposed to this viewpoint are the British and the Japanese. They claim that the agreement in no way restricts either the operation of Japanese motor vehicles factories in the Community nor the movements of products within the EU made at these plants.
Although these two points of view stand in contradiction, the text of the accord together with commentary
tion, the text of the accord together with commentary
by those who draft it, does indeed place implicit (though somewhat vague and ambiguous) limit on the Japanese transplants through the 1990's. First, because

the text includes language warning Japanese car makers from concentrating their European transplants sales to the five restricted markets during the life of the agreement. Second, the declaration of Frans Andriessen about the 1.2 million units sold by the end of 1999, suggests the possibility of an informal agreement limiting Japanese firms to that level during the life of the accord. And third, some Commission representatives made clear that, in interpreting the accord, the Community could compensate for the Japanese transplant production above negotiated levels, by reducing Japanese auto imports into the Community.

Japanese market share

The volume of Japanese direct exports to the fifteen countries of the EU was limited for 1995 to 1,071 million vehicles with an expected total demand of 12,946 million vehicles.

The car quotas of 1995 for the five limited markets were: France 88.700 vehicles, Italy 55.300 vehicles, Spain 40.400 vehicles, Portugal 32.800 vehicles, UK 182.700 vehicles.

Table 1 shows the Japanese car market share in 1989 and 1995 together with the forecasts for the market share in 1999. The last column includes transplant production.[2]

Conclusions

In the car market there has been a shift from national negotiations to exclusively EU negotiations and national quotas have been replaced by a Voluntary Export Restraint (VER) to the Community as a whole. Still, the agreement on the import of Japanese cars, reached in 1991, looks more like a gentlemen agreement rather than a VER and seems deliberately vague and ambiguous in its terms.

As a consequence, different interpretations have been given to the question whether transplant production is included in the annual ceilings, and what will happen if EU car makers will not be able to compete with the Japanese without quotas by the end of the 1990s.

Analysis of the negotiations process and outcome in the car market suggests that individual nations' interests strongly influenced the course of the negotiations.

The Commission at times managed to find out a compromise between the different interests by using threats and reward and also by using its privilege position of intermediary. Yet, member Governments and the chiefs of the major European car industries retained a decisive power over the agreement: only when a common position among the car makers was found, the Commission was able to proceed in the talking with Japan and its position reflected the car industries positions.

Even if at national level, protectionist measures have become largely ineffective, the car market shows that strong political pressure over the Commission during the negotiations still provides a way to pursue national trade policies. As national trade policies have traditionally reflected the views of a local industry, it seems that in today's Europe industry pressure groups are to some extent able to directly influence the formation of the EU trade policy.

References

CALVET J., *Thank God for Quotas*, European Affairs, Dec, Vol 5:6, p. 68-72, 1991.

COPE P., *The Anxieties of the motor sector*, European Trends, 1988, n 4.

FLAM H., *EC members fighting about surplus, VERS, FDI and Japanese cars*, Journal of International Economics, n. 36, p. 117-131, North-Holland, 1994.

GROS D., *A Note on EC Trade Policy after 1992: The effects of replacing existing national import quotas by community quotas that are equally restrictive*, Weltwirtschaftiliches Archiv., Vol. 128, n. 1, 1992.

MASON M., *Elements of Consensus: Europe's response to the Japanese Automotive Challange*, Journal of Common Market Studies, Vol. 32.

OECD 1993 *Obstacles to Trade and Competition.*

PREUSSE H., *Voluntary Export Restraints: an effective mean against a spread of neo-protectionism?*, Journal of World Trade, Vol. 25, pag. 15-17.

TULLY S., *Europe hits the breaks on 1992*, Fortune, 17 december 1990.

Notes

[1] Article 115 of the Treaty of Rome sets out the conditions to fulfil in order to raise national trade barriers against a non member country and in order to prevent imports from outside the Community, entering via other EC countries.

[2] Japanese foreign direct investment in the EC started in the early 1980s with the advent of the Tatcher government. Nissan was the first Japanese firm to profit of Britain's overtures, when in 1984 concluded an agreeement with the British government to establish a production facility in England. Honda followed Nissan's decision and started its own project to set up a British plant with Rover in 1985, followed by an Isuzu initiative with (GM) and a Toyota direct investment in the UK in 1987 and 1989 respectively. Nissan also directly invested in Spain and Toyota in Germany (with VW) during the 1980s, but well before the decade it had become clear that Japan's major car makers had chosen the UK as the main country of their manufacturing activities.