



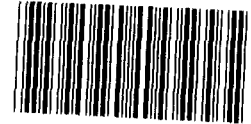
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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND  
INTERNATIONAL AFFAIRS DIVISION

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The Honorable Robert Watkins  
Deputy Assistant Secretary of Commerce for  
Automotive Affairs and Consumer Goods

Dear Mr. Watkins:

Subject: European Use of Import Restrictions To  
Protect Domestic Auto Industries  
(GAO/NSIAD-85-24)

There is continuing interest in legislative and other proposals to protect the U.S. auto industry from foreign competition, particularly from Japan.<sup>1</sup> Such proposals include extending Japan's voluntary restraints on its auto exports to the United States and imposing domestic content requirements. The latter would require firms selling autos in the United States to manufacture domestically a certain proportion of these vehicles, measured by value.

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<sup>1</sup>The 98th Congress considered a number of legislative proposals to assist the U.S. auto industry.

--H.R. 1234 (introduced Nov. 7, 1983), among other things, would establish domestic content requirements for motor vehicles sold or distributed in the United States.

--H.R. 4499 (introduced Nov. 18, 1983) would limit the quantity of imported motor vehicles sold in the United States to no more than 15 percent of the market.

--H.R. 3113 (introduced May 24, 1983), among other things, would instruct the International Trade Commission to determine whether imported automotive products are or threaten to be a substantial cause of serious injury to the U.S. auto industry and, if so, recommend remedial action.

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In connection with deliberations over these proposals, GAO is providing information on the efforts of five major European auto producing countries to restrict auto imports. This report, which reflects information collected primarily during 1983, presents the experiences during 1978-83 of four European Community (EC) countries--France, Germany, Italy, and the United Kingdom--that use voluntary export restraints<sup>2</sup> and similar arrangements. It also discusses Spain's use of domestic content requirements and other measures to foster the development of its auto industry.

THE EC EXPERIENCE USING  
VOLUNTARY EXPORT RESTRAINTS

The four EC governments cited above have imposed relatively limited restrictions on car imports generally but have strictly limited car imports from Japan. These governments all adhere to a community-wide tariff on auto imports from outside the EC, which in 1983 was 10.5 percent, and impose safety and other technical requirements on imported cars. In addition, they use voluntary export restraints (VERs) and similar arrangements to limit Japanese penetration of their domestic markets. These restraints vary in nature and extent, as shown in Table 1 on the following page. In addition, we were told by U.S. government and EC sources that the EC Commission has arranged for Japan to voluntarily restrain its auto exports to the Community so as not to disrupt the EC auto market.

Despite these restrictions, the auto industries of France, Italy, and the United Kingdom experienced downturns during 1978-82. Auto makers in those countries lost considerable domestic market share during this period. For example, British auto makers' share of the domestic market decreased from 50.7 percent in 1978 to 42.2 percent in 1982. Auto makers in these countries also experienced decreased exports during 1978-82. French auto exports decreased 7 percent during 1978-82 while Italian and British auto exports decreased 31 percent and 32 percent, respectively. Lost sales caused auto makers in these countries to curtail production and reduce employment. German auto makers fared somewhat better during 1978-82, largely at the expense of other EC countries' auto industries. German auto makers' share of the domestic market remained relatively stable and they were able to increase exports by 13 percent.

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<sup>2</sup>A voluntary action through which a government limits exports of certain products to a particular country in order to avoid economic dislocations in the importing country and the imposition of mandatory import restraints.

Table 1

Voluntary Restraints on Japanese Auto  
Exports to Major EC Auto Producers

<u>Country</u>	<u>Nature of restraint</u>	<u>First year</u>	<u>Level of restraint</u>	<u>Approx. number of units in 1983</u>
France	VER	1977	3% of domestic market	60,530
Germany	VER	1981	10% annual growth	241,460
Italy	VER	1968	2,200 vehicles	2,200
United Kingdom	VRA <sup>a</sup>	1977	11% of domestic market	204,000

<sup>a</sup>A Voluntary Restraint Agreement (VRA) is similar to a VER except that the parties sign a formal agreement.

Source: Information obtained from EC auto industry associations and the Annual Report of the President of the United States on the Trade Agreements Program (1983).

In furtherance of government efforts to enhance their competitiveness, auto makers in each of these countries have invested heavily during the early 1980s. These investments were often made at the urging and with the support of EC governments, which consider domestic auto industries to be essential to the overall health of their economies. The French government is providing an estimated \$4.2 billion in investment resources during 1983-85 to Renault, the government-owned auto maker. Italy's major car manufacturers--Alfa Romeo and Fiat--invested an estimated \$2.3 billion during 1981-83 to develop new cars and update their production technologies. Generally, auto firms have used investment resources to (1) establish more capital-intensive production technologies, (2) develop safer, more fuel-efficient, and less polluting models, and (3) conduct long-term research and development.

While sales by European auto makers rebounded in 1983, some analysts forecast that the slow economic recovery in Europe may jeopardize their continued improvement.

SPAIN'S EFFORTS TO BOOST  
ITS DOMESTIC AUTO INDUSTRY

Spain, which is less industrialized than its EC neighbors, has pursued a policy aimed at developing a domestic automobile industry since the 1950s. As part of this policy, it imposes prohibitive tariff and non-tariff barriers on the import of foreign-made cars, thus creating a protected domestic auto market that is attractive to foreign investors. A 68-percent tariff was imposed on all imports until 1970, when the Spanish government agreed to lower the effective rate on auto imports from EC countries to 55.8 percent. In 1980, it unilaterally reduced its tariffs on EC-made autos to 36.7 percent and on other foreign-made autos to 48.9 percent; in 1983, it further reduced its tariffs on a limited number of EC-made autos to 25 percent or 19 percent, depending on car size. In addition, Spain has imposed a virtual ban on all imports of Japanese autos since 1966 and permits imports of foreign-made auto parts only when such imports will not injure domestic manufacturers.

The Spanish government provides various fiscal incentives to attract foreign direct investment, including tax credits, accelerated depreciation, training and employment grants, and cash investment grants. Also, Spain has a relatively stable labor market, low wages, and an ideal geographic location for shipping to the large export markets of the European Community.

Since the 1960s, the Spanish government has also imposed performance requirements, including domestic content, on all firms establishing manufacturing facilities in Spain.<sup>3</sup> After relying on administrative decisions during the 1950s, the government formalized its inward investment policies in 1963. The resulting regulations, revised during 1964-67 and in 1968, required that autos and other products produced in Spain contain a minimum level of domestic content and that manufacturing plants have a minimum level of production capacity.

Domestic content requirements  
changed for auto industry

Spain's policies underwent several changes during the 1970s. In 1972, at the urging of the Ford Motor Company, which was considering making major investments in Spain, the government passed the first law dealing solely with performance

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<sup>3</sup>The information regarding Spain's use of domestic content requirements and related restrictions until 1979 was provided to us orally by an official of the Spain's Ministry of Industry and Energy.

requirements in the auto industry. This law required manufacturers already established in Spain to meet domestic content requirements of 90 percent and permitted them to import some foreign equipment and components as long as the value of exported vehicles exceeded the value of these imports by at least 20 percent. The law required manufacturers established after 1972 (i.e., Ford) to meet domestic content requirements of only 50 percent but also (1) required each of these firms to export at least two-thirds of its domestic production, (2) required that the value of these firms' exports exceed the value of their equipment and components imports by at least 50 percent, (3) limited their domestic market share to 10 percent and (4) specifically required Ford to build an engine manufacturing plant in Spain.

In 1979, a law, prompted by negotiations with the General Motors Corporation regarding a possible investment in Spain, reduced the domestic content requirement for all firms, except Ford, to 60 percent and increased the domestic content requirement applicable to Ford (which was then attaining a 70 percent domestic content level) from 50 to 55 percent. This law also required all new firms opening manufacturing facilities in Spain to meet a minimum production capacity of 600 units a day. The government also allowed General Motors to import cars duty free until its plant in Spain became operational.

Spanish government officials believe that these policies have been effective in attracting foreign direct investment to Spain's automotive industry. In 1964, Spain produced less than 113,000 cars. In 1982, its domestic automobile industry sold over 456,000 units domestically and exported nearly 500,000 units, mostly to Western Europe. When the new General Motors plant became operational in 1983, Spain attained the capacity to manufacture 1.5 million vehicles annually. Spain's auto industry had become the nation's largest earner of foreign exchange and the sixth largest producer of autos in the world. The automobile and related industries account for about 10 percent of Spain's employed workforce. The firms attracted to Spain's automotive industry continue to invest in improving production capability. In addition to General Motors, the auto makers operating in Spain--including Ford, Renault, PSA (the Peugeot Group), and SEAT (a domestic firm)--invested \$1.1 billion during 1978-80 and, including General Motors, plan to invest about \$554 million by 1986.

Domestic content inhibiting  
continued growth of industry

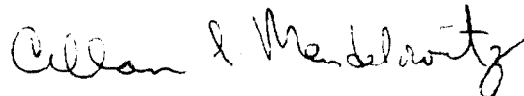
Spanish government and industry officials are now seeing, however, that the policies that initially helped to create its

auto industry are beginning to inhibit the industry's continued international competitiveness. The world auto industry is diversifying its sources of production and supply to hold down costs. However, Spain's domestic content requirements force its auto makers to purchase or produce more auto components domestically than can be justified economically, thus increasing the cost of Spanish-made cars. According to Spanish industry officials, the relatively small size of Spain's auto industry does not allow for the economies of scale needed to compete with foreign firms, which increasingly enjoy economies of scale based on worldwide procurement and production. Further, Spain will have to dismantle its domestic content requirements as a prerequisite for joining the EC, which is now scheduled for 1986. As a result, the Spanish government intends to continue the liberalization of the nation's domestic content requirements that began during the 1970s.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to obtain information on major European auto producing countries' efforts to protect their domestic auto industries from imports, especially Japanese-made autos. In conducting this study we (1) interviewed officials of the European Community Commission and of the governments, auto producers, labor unions, trade associations, and other organizations in these countries and (2) obtained data on production, sales and imports of passenger cars, and on employment and investment in these countries' auto industries.

Sincerely yours,



Allan I. Mendelowitz  
Associate Director