

The triggers of Competitiveness

South versus North and the impact of the crisis

A few remarks using the case of auto industry

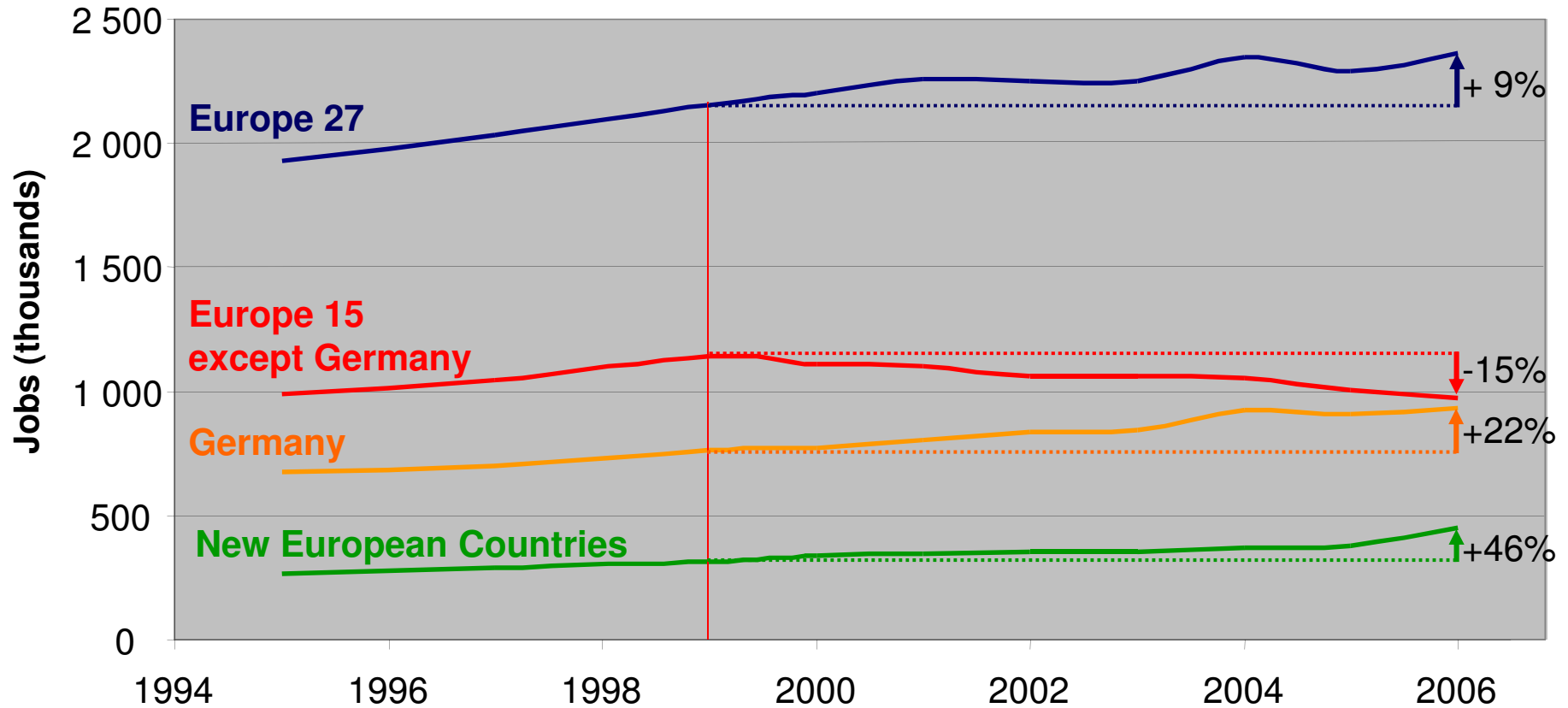
Patrick Pélata

Conference in National Bank of Belgium, Brussels, December 6th

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- 1. Renault & the auto industry in Europe, a few facts**
 - 2. Renault's strategy**
 - 3. North/South gaps on industry and some causes..**
 - 4. What could be done?**

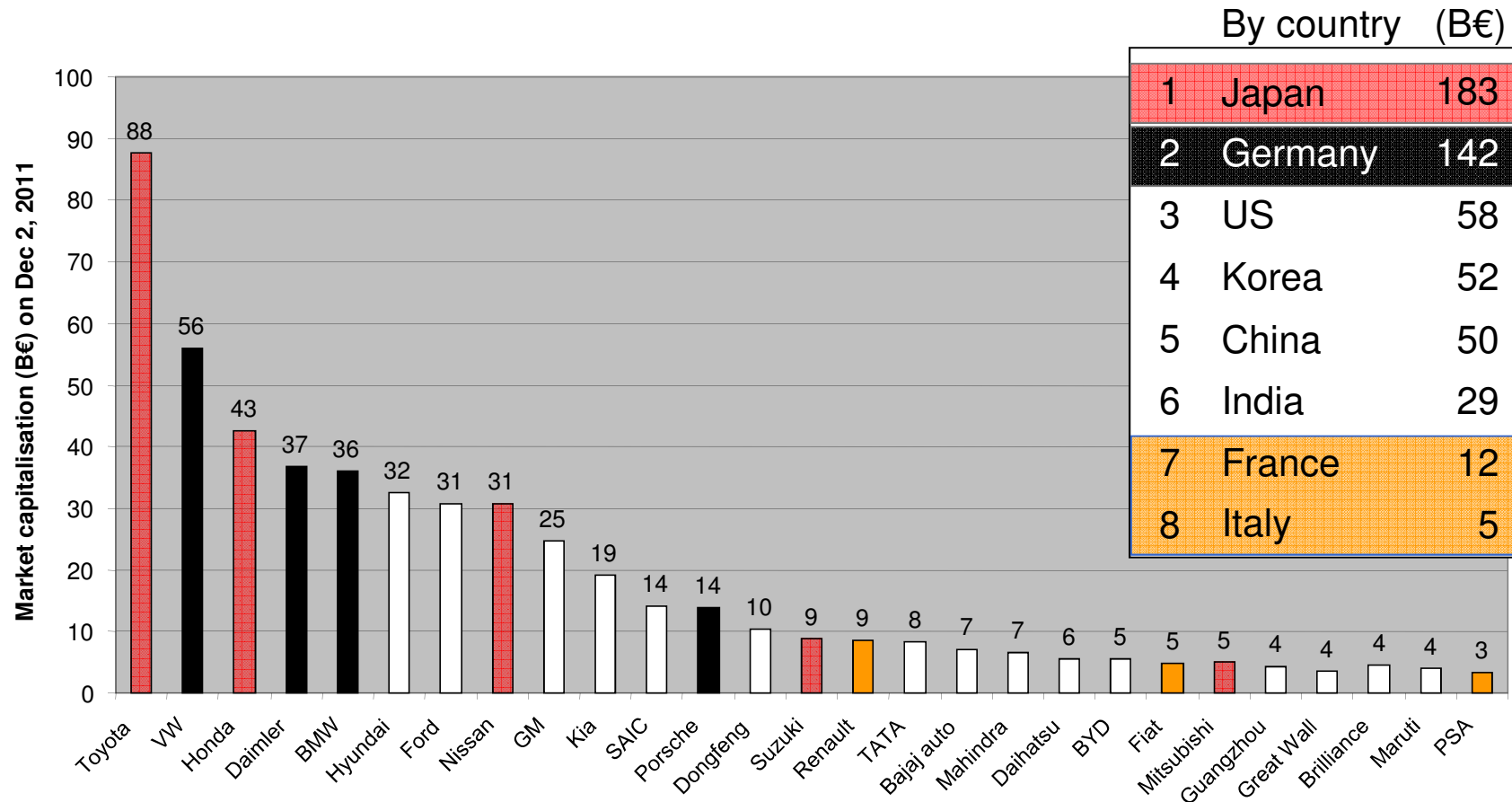
Before the crisis, jobs were created in auto industry in Europe but...

Employment in Automotive Industry in Europe 1995-2006



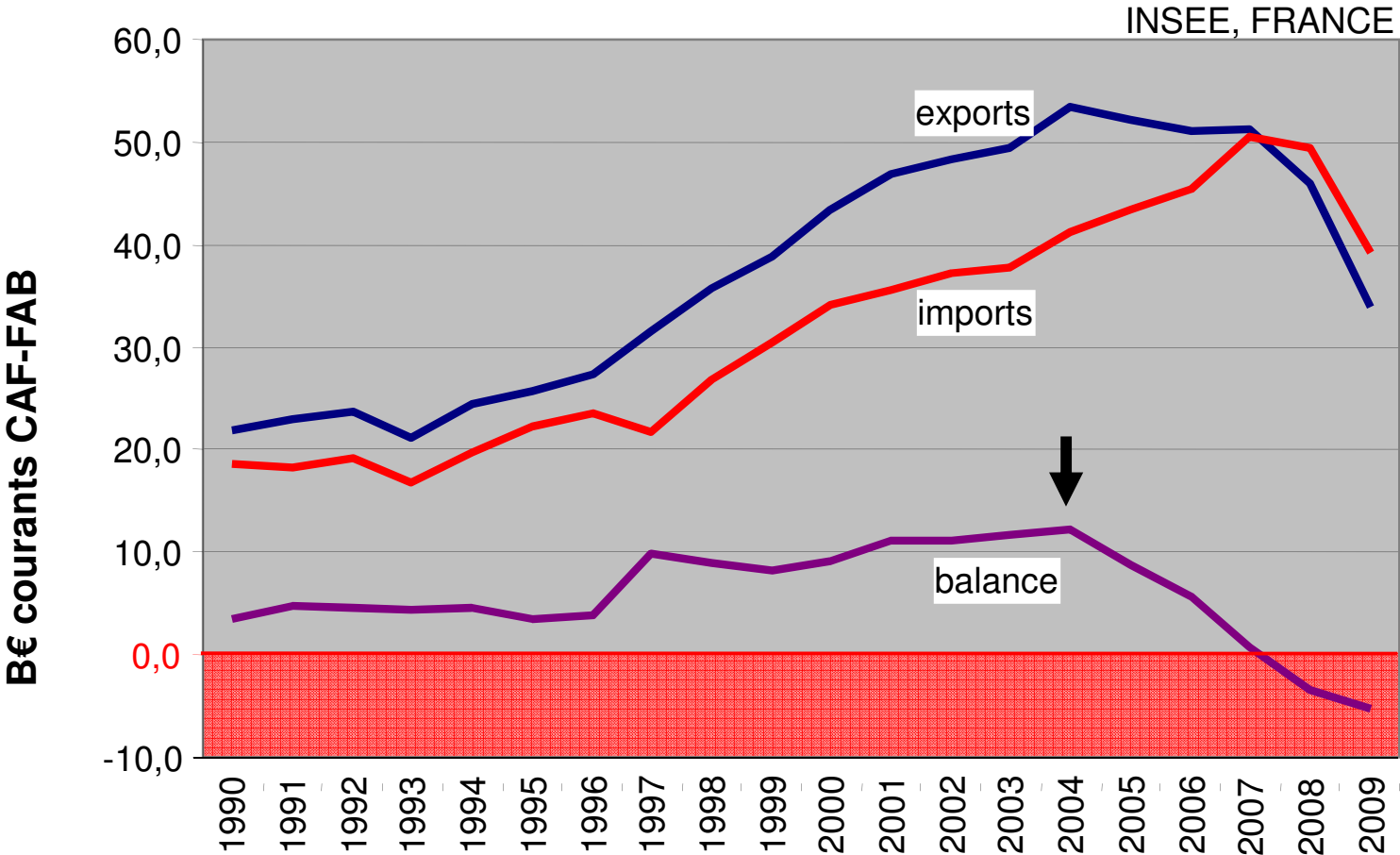
Market cap. shows gloomy future for southern Europe carmakers

Market capitalisation (Dec 2, 2011) by carmaker & by country of origin



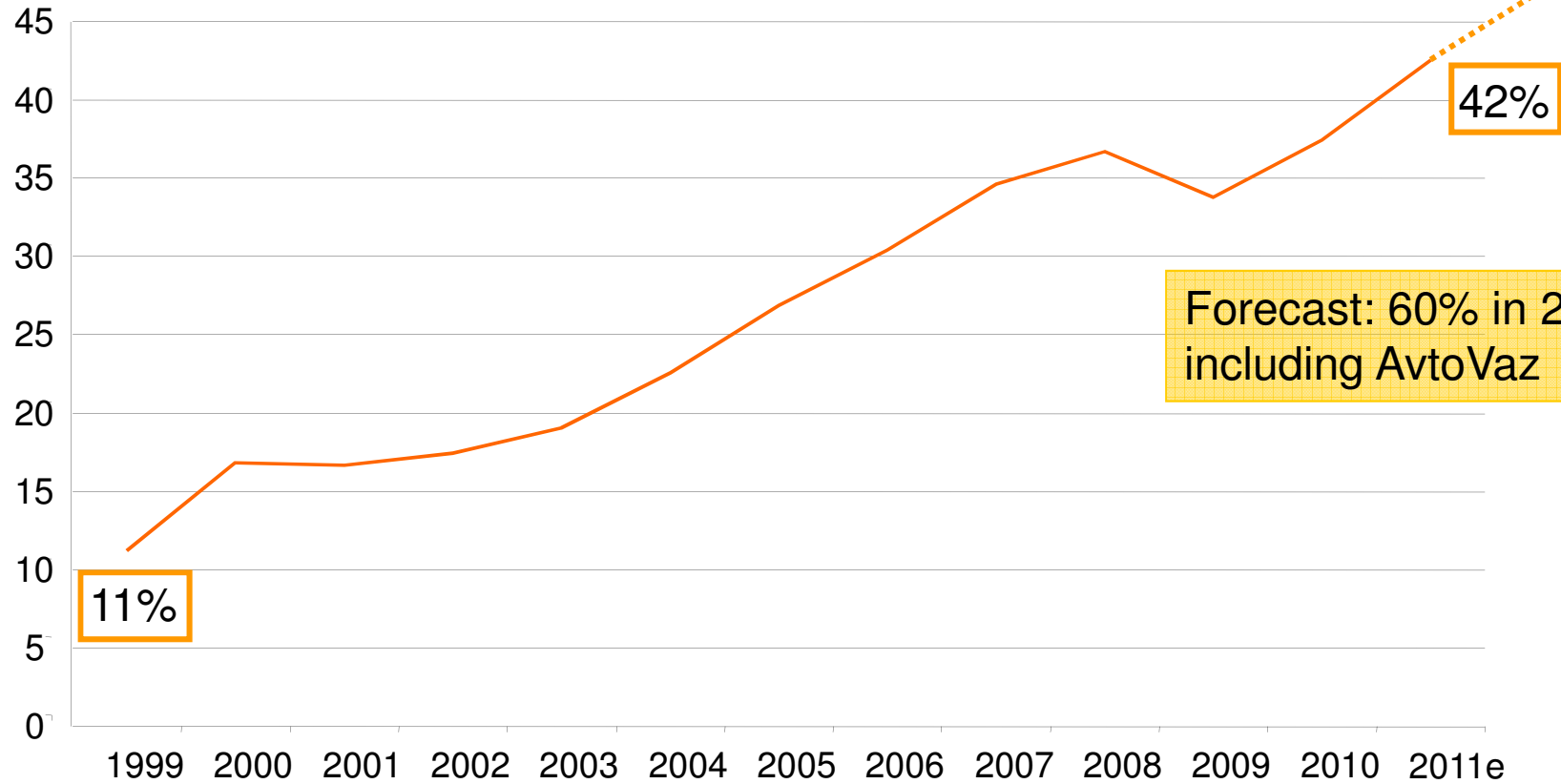
source Bloomberg Dec2,2011

France trade balance for automotive industry goes really bad

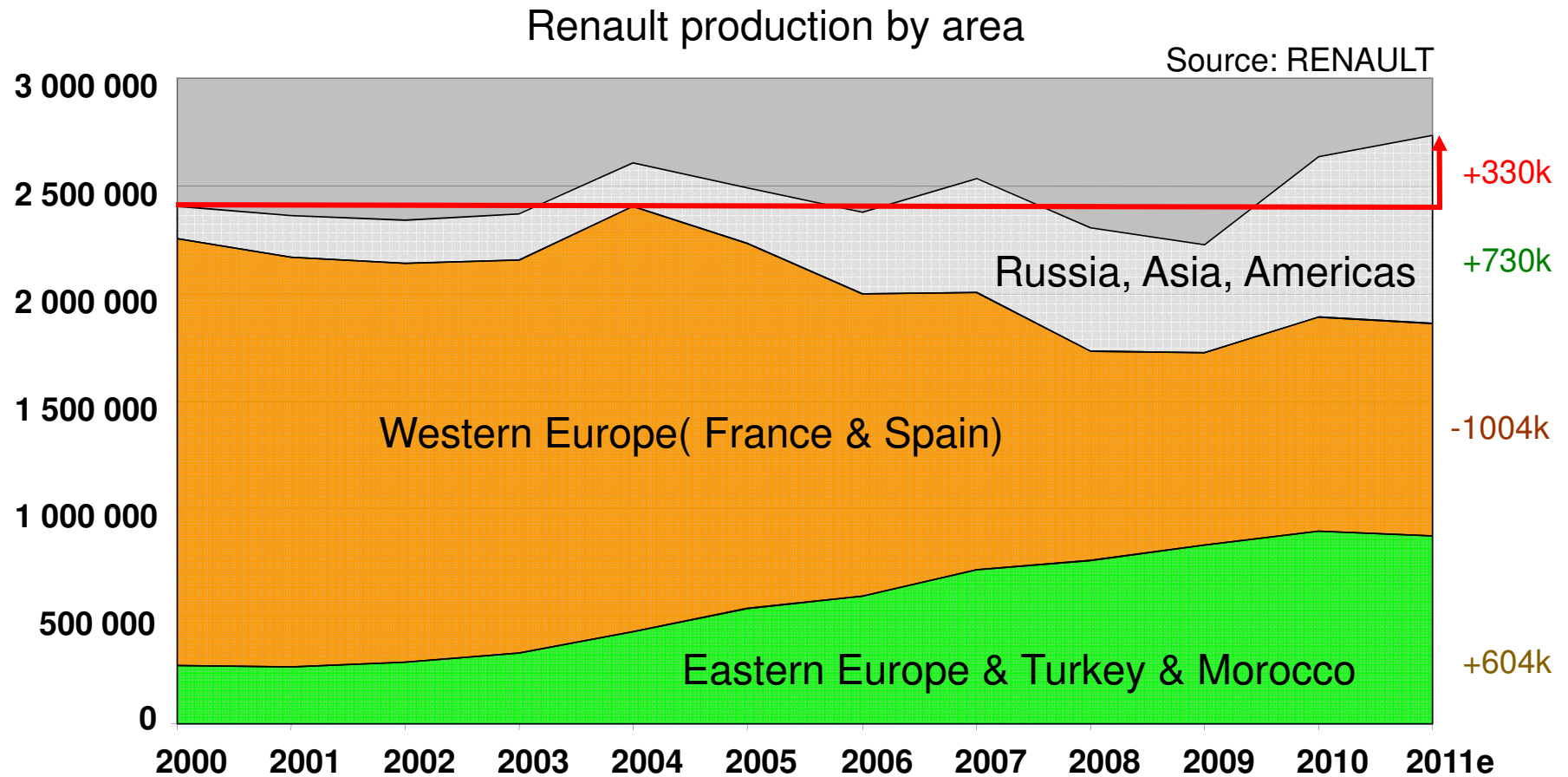


But Renault globalisation has been pretty successful meanwhile

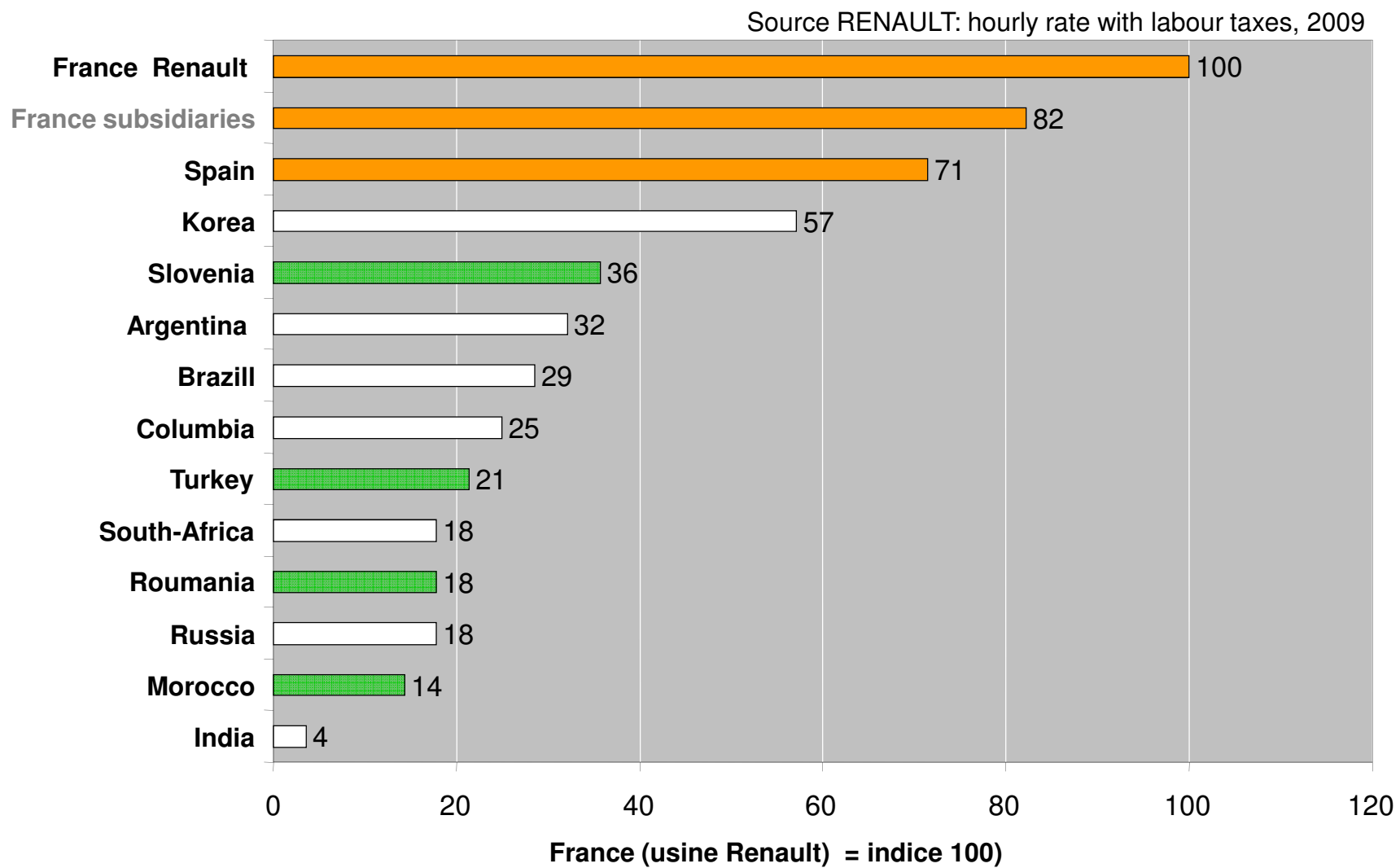
% of sales outside Europe



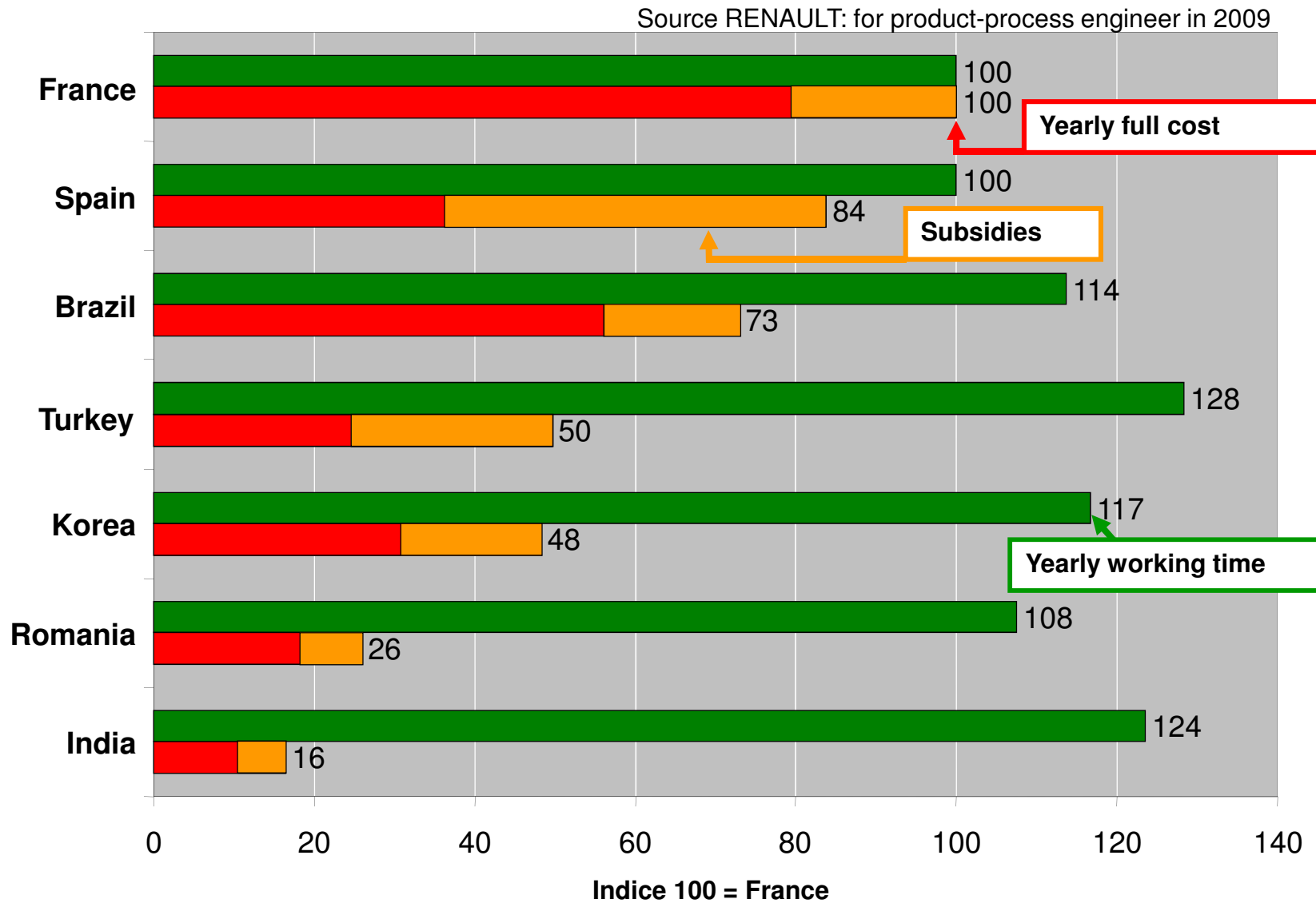
...leading to manufacturing shifts



High labour costs for blue collars



High labour costs for white collars, relatively higher with subsidies



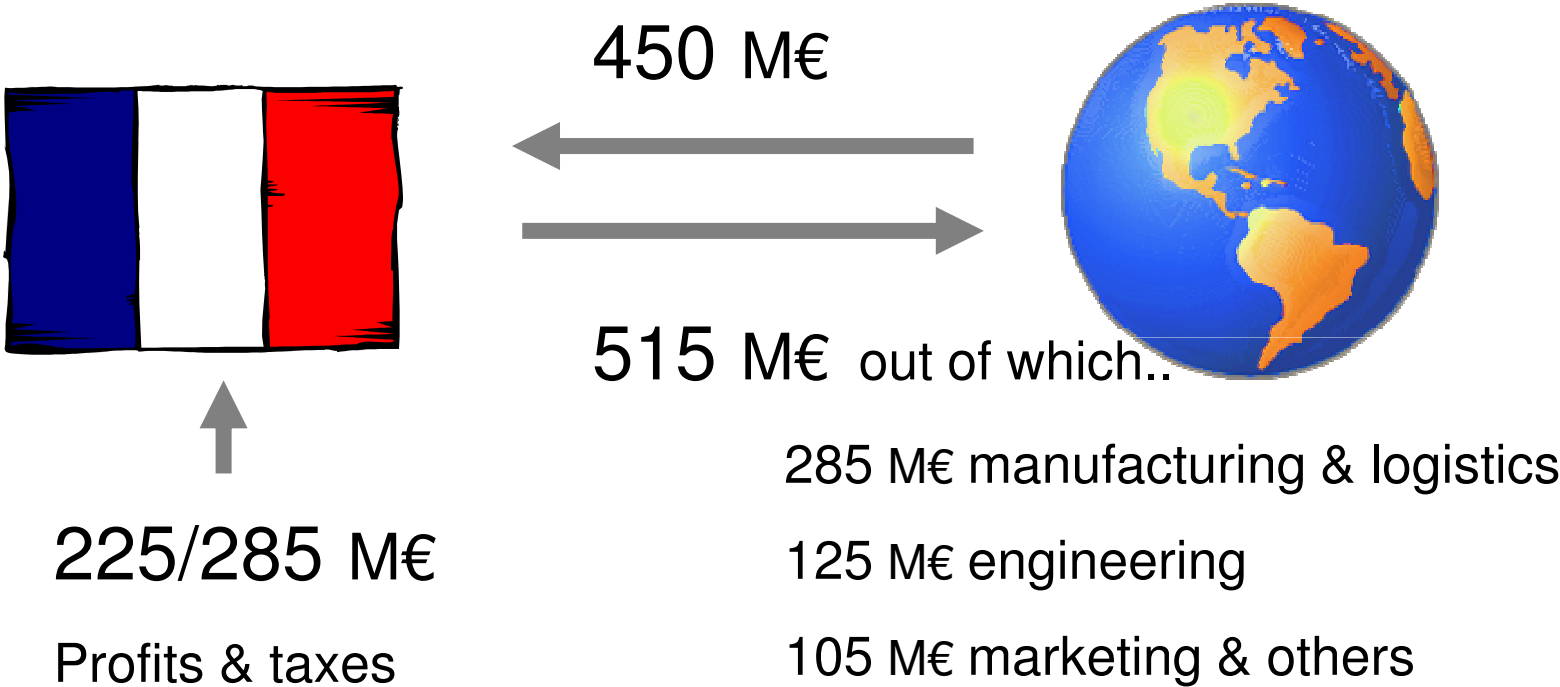
2. RENAULT's strategy

1. Keep in France high added value manufacturing: LCVs, upper end of the line-up and EVs
2. Slovenia, Turkey, Romania and Morocco
3. Logan platform cars: Dacia brand in Europe, Renault international weapon
4. Alliance with Nissan and strategic partnership with Daimler
5. Innovation breakthrough with EVs
6. A better use of the french innovation support system: CEA, MOVEO (“pôle de compétitivité”), “Grand Emprunt”
7. Better inter-companies cooperation with PSA & suppliers: VDA as a benchmark

Logan/Sandero, a net positive impact on french economy

Net impact: ~ 300 M€

Source: RENAULT, 2010



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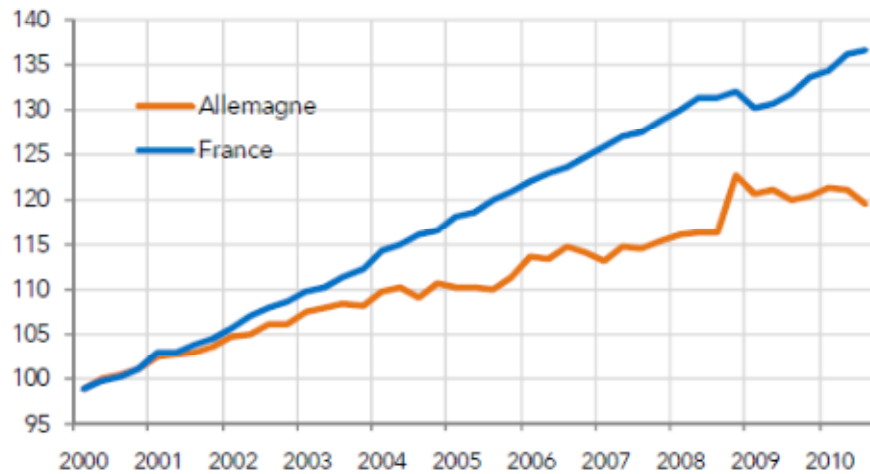
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3. North/South gaps on industry and some causes..

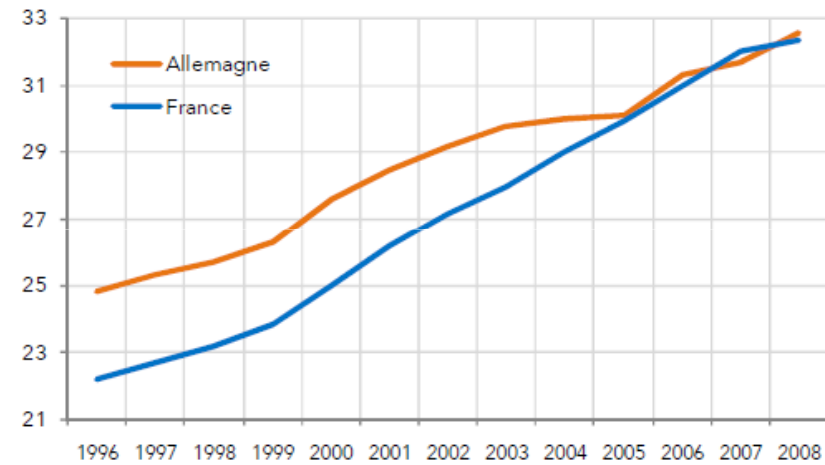
1. France industry added value now among the worst in Europe
France = UK (16%) << Europe (22,4%) << Germany (30%)
2. French industry loses market share in w-w trade much more than Europe
3. Labour costs have diverged
4. Labour taxes count for 1/2
5. German industry has better outsourced basic manufacturing goods
6. Industry profits heavily down in France / Germany
7. Industry R&D effort goes down / Germany

Germany/France labour cost evolution has diverged

Indices du coût de la main d'oeuvre dans l'industrie manufacturière en France et en Allemagne (base 100 en 2000)



Evolution du coût horaire de la main d'oeuvre dans l'industrie manufacturière

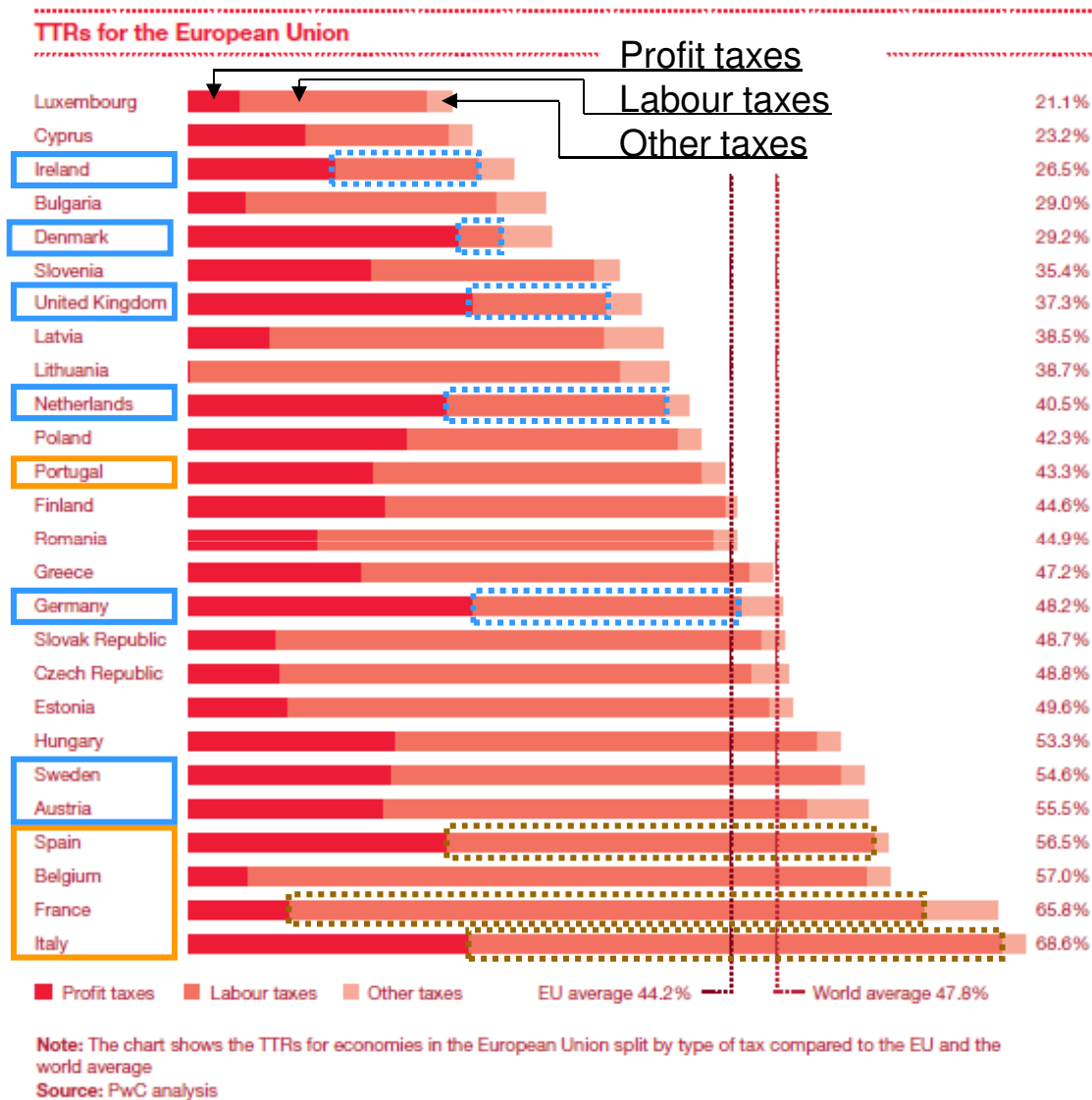


Source : Enquêtes annuelles d'entreprises (SBS), Eurostat

Labour taxes is a strong differentiator between North/South Europe

Total Tax ratio In European Union

Source: Paying Taxes 2011, the global picture. World Bank, IFC & PWC



Example of the impact on a car full production cost

For an average car sold 14 000 €

The gap between

- 100% developed, invested and manufactured (including purchased parts) in France

- 100% developed, invested and manufactured in Eastern Europe

is 1400 € (10%!) out of which:

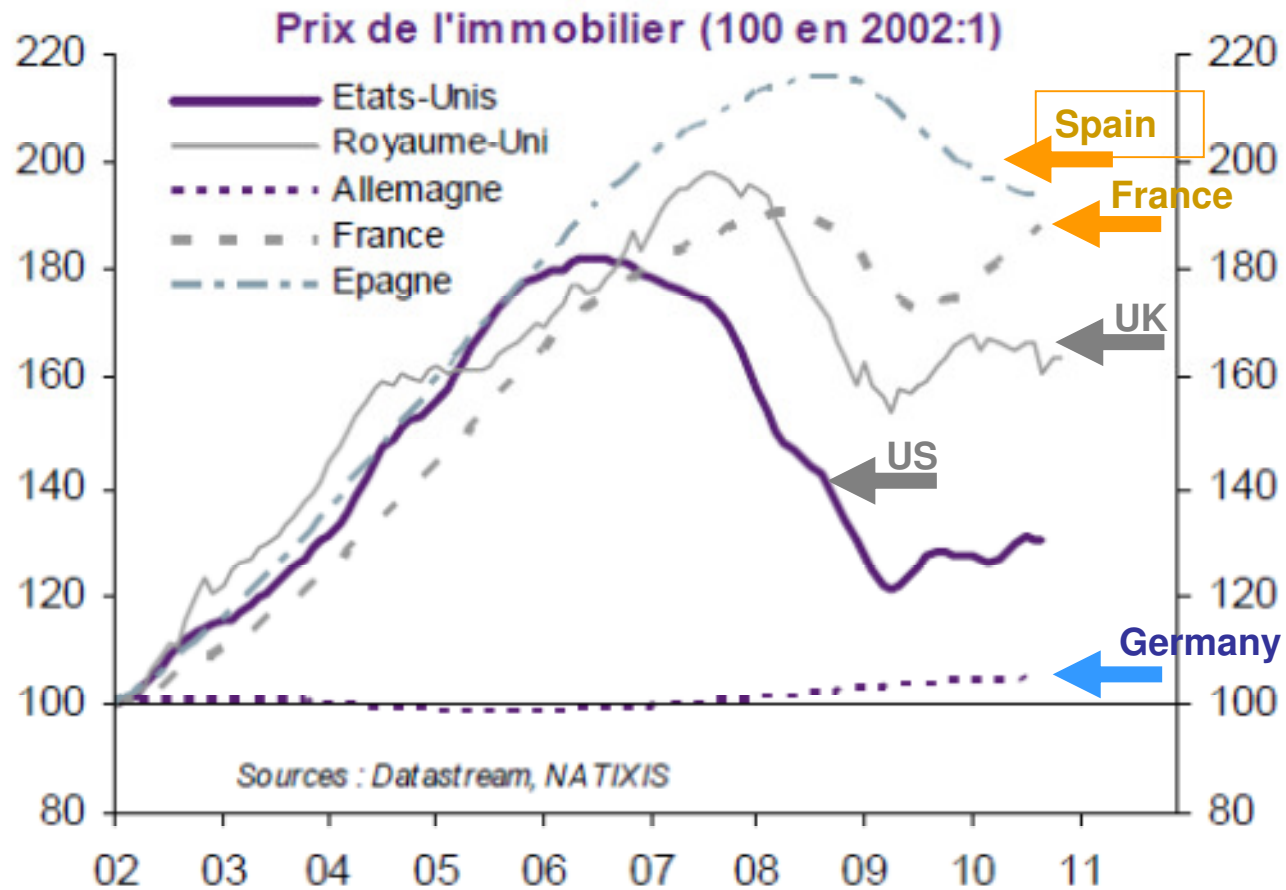
- 400 € net wages

- 250 € “taxe professionnelle” now reduced to 200 €

- 750 € other labour taxes

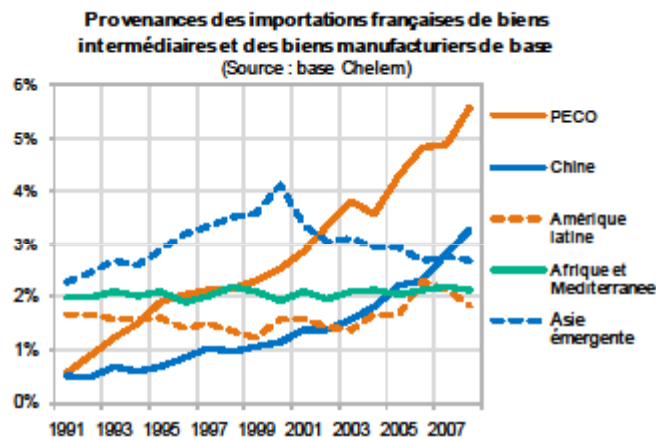
Source RENAULT, figures published in “Etats Généraux de l’Automobile”, Janvier 2009

Don't forget another driver of labour costs: real estate prices

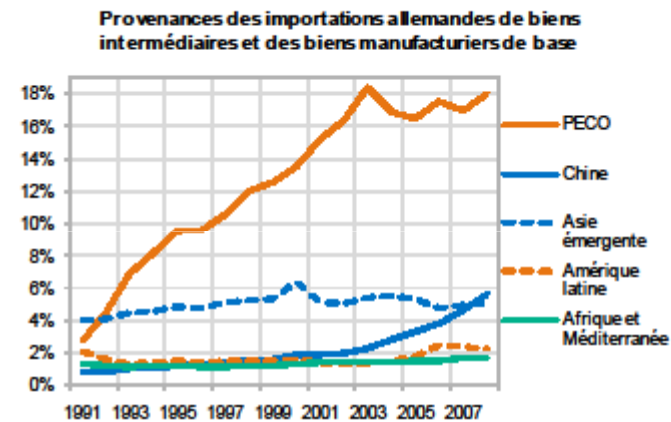


German industry has outsourced basic manufacturing goods sooner and better than France industry

Une stratégie de relocalisation des approvisionnements en provenance de zones à plus faible coût plus marquée en Allemagne qu'en France.



Source : Chelem (CEPII), calculs Coe-Rexecode

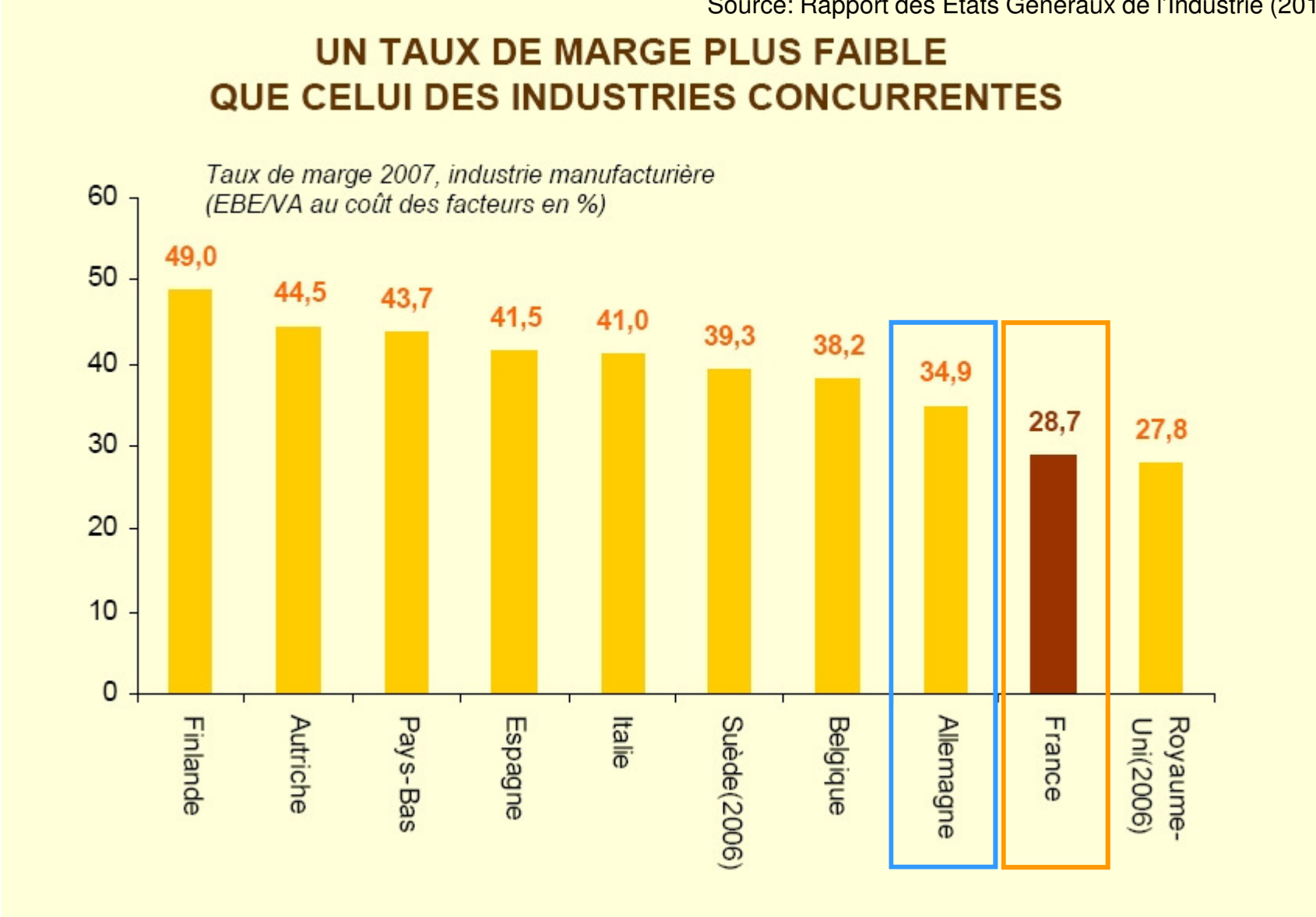


Accroissement du poids des importations de biens intermédiaires dans les achats de ce type de biens et augmentation de la part en provenance de pays à faible coût salarial relatif.

Conférence Débat du CEPII – 7 septembre 2011

Companies' marginal profit rate was already poor before the crisis

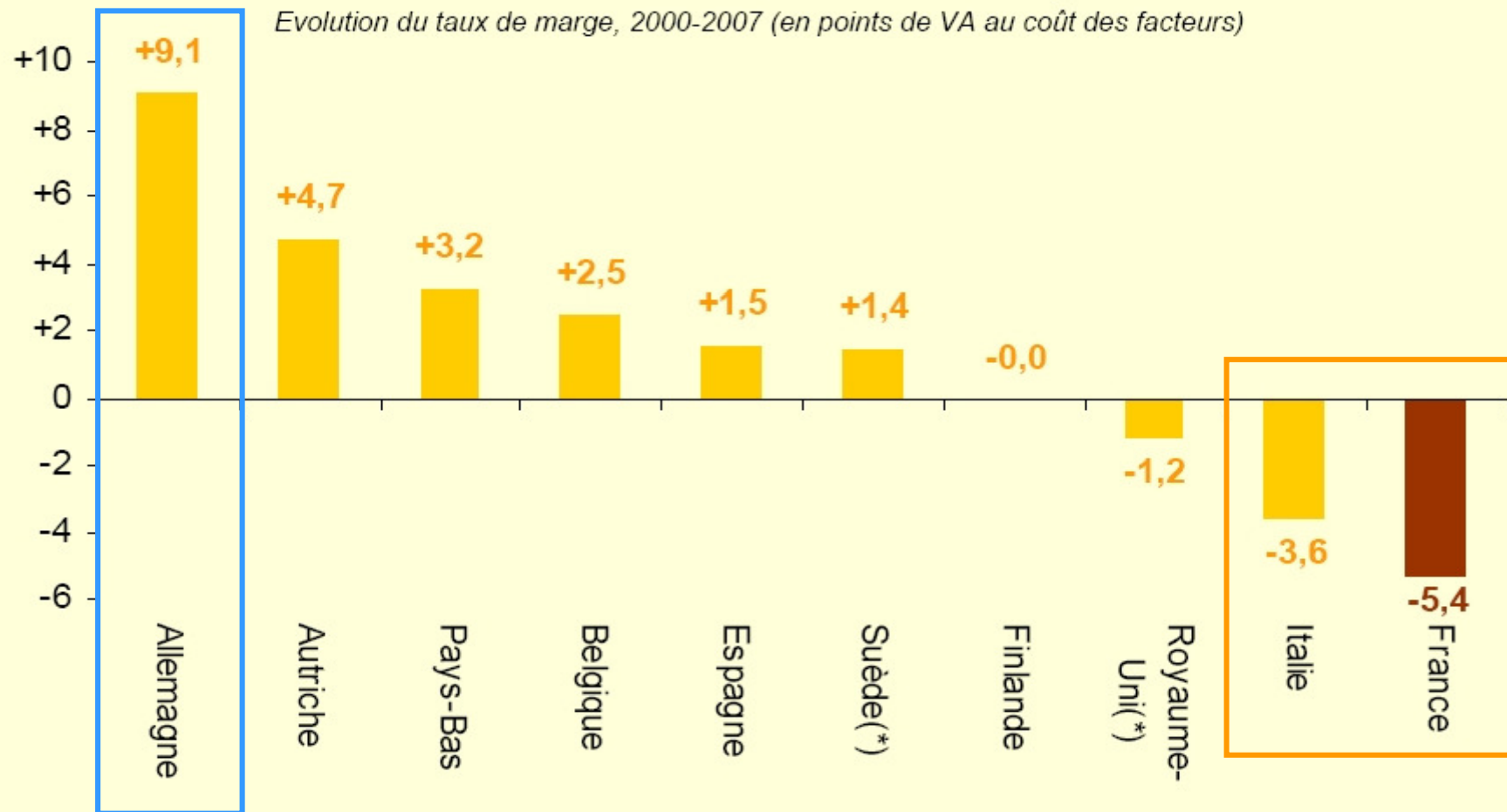
Source: Rapport des Etats Généraux de l'Industrie (2010)



And worst evolution in Europe was in France, Italy (before the crisis)...

Source: Rapport des Etats Généraux de l'Industrie (2010)

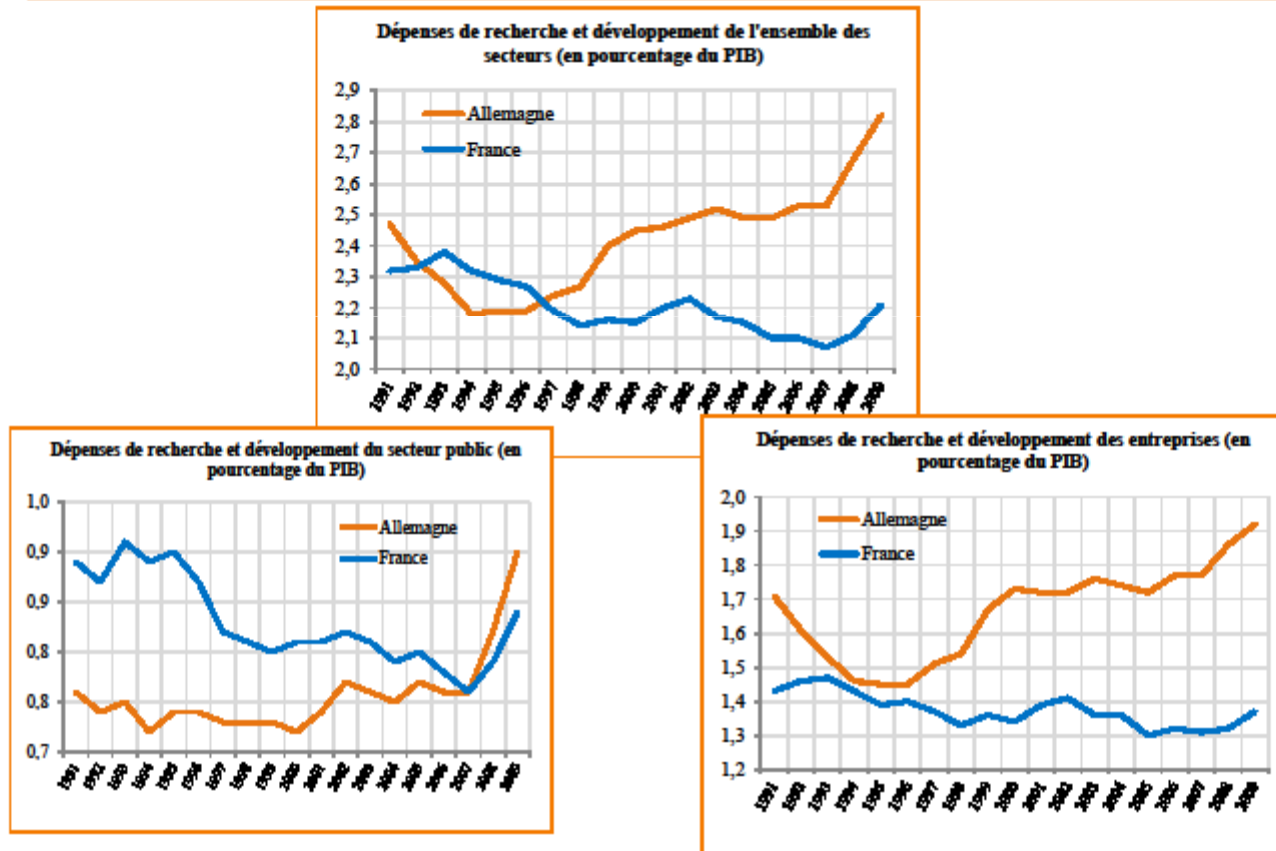
UNE CONTRACTION DES MARGES DEPUIS 2000 À CONTRE-COURANT DU REDRESSEMENT DANS NOMBRE DE PAYS VOISINS



Companies R&D effort diverges France / Allemagne

..no more compensated by public spending on R&D

Une divergence d'évolution de l'effort de recherche et développement



3. North/South gaps on industry and some causes..

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4. What could be done in France (South Europe?)?

1. Labour taxes reduction
2. Ease industry restructuring
3. Support « delocalisation of basic manufacturing goods » close to Europe
4. Continue to improve the innovation eco-system
5. Better inter-companies cooperation within a branch
6. Ease real estate offer

Thank you