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A **1958 BMW Isetta 600** photographed by your editor during a summer day outing near the Swedish Lake Vättern. Four adults climbed out of the car. I thought it might have been on loan from the Motola Automobile Museum, but the proud couple who owned it said they made many a long tour in the little gem.

BMW made the microcar between 1957 and 1959. It is based on the *Isetta* two-seater, three-wheeled 'bubble car'. The 600 was BMW's first four-seater economy car. At the time, BMW did not have the financial resources to develop an all-new car with a new engine, so it borrowed as much as possible from the 300, lengthened the frame, modified the rear suspension to carry the extra weight in the back and enlarged the engine located in the rear.

The driver and front seat passenger enter and exit via the front of the vehicle which swings open, and the rear seat passengers use a single rear door located on the vehicle's right side. It's a car that brings a smile to all who see it and ride in it.



Where Will You Sell Your Cars in the Years Ahead?

PLEASE READ THIS FIRST:

The subject of this article, selling cars, is not one that all of my readers have on the top of their priority list. Some of you want to see fewer cars sold, ostensibly to reduce emissions at the tail pipe, and more people using collective transport options or not using transport at all. Some of you are very focused on driverless cars so any discussion about people buying their own cars is essentially irrelevant. You might, therefore, find the content of this article objectionable or irritating. My advice to those readers who suspect that this might be the case is to fast forward to page 13 and wait for the August issue.

I am directing this article to those of you who earn your living providing motorized road transport and related services to people. Passenger cars, SUVs and pick-up trucks are the most important vehicle types providing that transport today, and this will, in my opinion, continue to be the case in the foreseeable future. They offer a safe, convenient and economical complement to collective transport and a more practical, safer and flexible alternative to bicycles and scooters, both powered and unpowered. This is why 80 million are sold each year and why you own/have one.

I do not distinguish between selling vehicles powered by internal combustion engines, batteries, hydrogen or any combination of these propellants. I make no distinction between vehicles that are bought for private use, for renting out or for ferrying passengers. There is no difference made between an ASTON MARTIN and a LAND ROVER or between a Chevy Suburban and a Toyota Auris. The focus of this article is on where (i.e., in which countries) will cars be sold and what factors affect the likelihood of those sales increasing or decreasing in the coming years.

WHERE WILL YOU sell your cars? This was a question posed by a journalist to Håkan Samuelsson, CEO of VOLVO CARS at a recent automotive seminar in Gothenburg. The seminar was another in a series of events highlighting the Swedish car company's resurgence following its purchase by Geely in 2010. The journalist asked a series of questions leading to his main one: How will VOLVO meet its 800,000 goal by 2020 with so much focus in Europe on reducing car driving? How can VOLVO make enough batteries to convert its entire line of cars to electric? If consumers in those markets where VOLVO sells now will move away from car ownership (as Samuelsson indicated in his talk) where will sales come from? Shouldn't Volvo be making fewer not more cars? "It's probably safe to say," said Samuelsson, "that we will sell fewer cars in the big cities, but other markets will open up for us." Which markets might those be?

From the time cars began to be built, the question of where to sell their cars was faced by executives at the start of two World Wars, one Great Depression and one Great Recession. Charles Erwin Wilson was CEO of General Motors on December 7th 1941, the day Pearl Harbor was bombed. What might he have said if asked on the 8th of December where GM was going to sell its cars in the coming year? The world may not be at war, but it seems that, outside of those four major destabilizing events of the past century, it has never been as unstable as it is right now. China and the U.S. are engaged in a full-fledged trade war that will have major consequences for all companies building and selling cars in both markets, but also in the rest of the world. There are heightened political tensions in the entire Asian region because it seems that the U.S. has finally decided that its interests are severely threatened by China's actions. There is also an escalation of tensions in the Middle East, where the U.S. has decided that Iran is a threat to stability in the region. And the U.S. has also decided that it has been mistreated by its closest allies and is still contemplating placing higher tariffs on all cars and car parts from Europe.

Every executive management team in every vehicle manufacturer needs to have an answer to the question: Where will we sell our cars next year and in the years ahead? I do not believe they can simply look at where we are today and try to figure out where we go from here, nor can they merely try to compare our current situation to a specific event or era and copy-paste a solution. I agree with French philosopher Michel Foucault who was a master at examining the past as a means of diagnosing the present.¹ It is through a genealogical analysis of the past (i.e., studying an account of the origin and historical development of something) that we will inevitably gain some insight into the way in which the present has been ‘produced’, said Foucault. There is no way to separate the fate and performance of a company from the country in which it was founded and operates. It is not possible to isolate a company from the political and social events occurring in its home country, in the country where its principal owners are based and in the world in general. Volvo’s next move would be very different if it was still owned by Ford and not by Geely, or if it still were a Swedish-owned company. In other words, roots matter.

Passing Through the Ordeal of Change

I turned to old books for deeper insights, in particular books that attempted to depict the future in the context of the present day in which they were written. I read Orwell’s **Animal Farm** and **1984** for the first time in the 1960s and just completed re-reading them. For some reason that I do not recall, I never got around to reading Ayn Rand’s **The Fountainhead** or **Atlas Shrugged**. I corrected that error of judgment during the past several months. What I have been missing in recently written books, both fiction and non-fiction, is a Foucault’s genealogical connection to the past. **Animal Farm** and **1984** were both polemics on communism when they were written by their British author just after he survived the most devastating war in history. Orwell was warning us of the next danger ahead, governments that would control our every thought and dictate all of our movements. Ayn Rand in **Atlas Shrugged** took Karl Marx’s principle, “from each according to his ability, to each according to his needs”, and created a dystopia in America with an all-powerful state claiming profit and individual initiative had no place in a just and equal society. There was no place in this society for inventors of things practical or for industrialists who wanted to take those inventions and make life better for the masses. Intellectuals who justified the state’s policies and managers who carried out the dictates of the Head of State (the equivalent of Orwell’s Big Brother) were tolerated in Rand’s America.

1. [Rethinking Architecture: A reader in Cultural Theory](#), edited by Neil Leach. Routledge Publishers (1997).

French philosopher Michel Foucault (1926-84) was concerned with examining the past as a means of diagnosing the present. For Foucault there was no essential order or meaning behind things, and everything was therefore to be judged according to a framework of knowledge which was forever changing. Foucault referred to the broad changes in intellectual outlook as *epistemes*, ‘periodizations’ of knowledge not dissimilar to Thomas Kuhn’s ‘paradigms’.

The only recourse for those who wanted to take initiatives was to remove themselves from the official playing field, repair to a secret hideout while society disintegrated and prepare for the day when they could return as saviors.

Today, seventy years after Orwell and Rand wrote their books, their model for what the world might become, the Soviet Union, no longer exists, just like Rand predicted and like Orwell intimated. The real America never succumbed to communism, and even countries like Sweden that appeared to have embraced a socialist form of government, never did so wholeheartedly (Sorry, Bernie). But Rand's prediction that the Soviet Union would copy America once it woke up, and would welcome super industrial heroes like John Galt, Hank Reardon and Dagny Taggart, did not come to pass. Russia, the successor to the Soviet Union, has become even more like Rand's non-functioning state than was the Soviet Union. It's the oligarchs acting on behalf of the government enforcing the principle that "What is mine is mine and what is yours is mine as well." There were fewer light vehicles sold in all of Russia in 2018 (1.8 million) than in California (over 2 million). There were almost as many battery electric vehicles sold in China in 2018 (1.5 million) than the total number of light vehicles sold in Russia. Why this is the case matters to executives deciding where their company will sell their cars in the coming years.

Compared to communist Soviet Union and post-communist Russia, something totally different has happened in communist China. It is still run as a communist dictatorship. The state still controls everything that happens within its borders and the lives of its citizens, but China is challenging the U.S. for global hegemony. In 2009, it passed the U.S. as the number one market for light vehicle sales and today almost double 40% more light vehicles are sold in China compared to the U.S. The country has become an industrial powerhouse and it has begun to project that power everywhere. It is one of only four countries that has landed a spacecraft on the moon (U.S. Russia, China and India). It is the largest manufacturer of trains (high-speed and otherwise) and the largest market for selling them. It will begin to challenge AIRBUS and BOEING in the air. This has happened in less than twenty years. When the *dot.com* revolution was happening at the end of the 1990s, China was the place where western companies and Japan off-shored production. Even though it was a market equal in size to the populations of all the industrialized countries combined, it was its cheap labor that



Here is a 1990 LADA, looking for all the world like a 1970 Ford Cortina. Its designs have improved during the past twenty-five years, but sales remain meager.

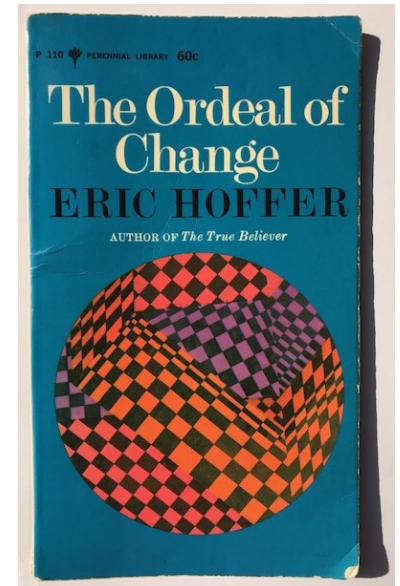
In all of 2018, 1,800,591 cars of all makes were sold in Russia, 12.8% up from 2017 sales. Among the four largest OEM retailers in Russia in 2018, Lada sales were up 15.6% to 360,204 units, Kia sales were up 25.1% to 227,584 units, Hyundai sales were up 12.9% to 178,269 units and Renault sales were up 0.3% to 137,602 units sold.

was its asset. How could people who earned so little money ever afford to buy our cars and gadgets? Ten years later its consumers were buying everything, and its companies—supported by the state—were buying companies like VOLVO CARS. How it got there is important to understand, but how and why it decided to go there is what is most relevant for answering our own question: Where will we sell our cars in the coming years.

Another good old book has helped me gain some insights on the possible reason for the rise of China as the largest market for both manufacturing and selling cars, and where the next markets will open up for the sale of cars. In the same section of my bookshelves where I found Orwell's gems was a little book that I read in one of my undergraduate sociology courses, Eric Hoffer's **The Ordeal of Change**. It has managed to survive numerous moves and periodic culling because I remembered it as being one of the most practical and perceptive texts I had read on why people do what we do. Hoffer wrote it in 1963, when the Soviet Union was arguably at its zenith, having beaten the U.S. in placing a satellite into space, projected its missile arsenal practically to America's shores and controlled within its sphere of influence more people and geography than all of the west combined. The People's Republic of China had been proclaimed only fourteen years earlier. In explaining what communism really is, Hoffer gives the reader a hint at what it could really become if it ever decided to try. He is not looking back and second-guessing why the Soviet Union failed. He is trying to discern why countries like Great Britain succeeded in the 18th and 19th centuries and the United States succeeded in the 19th and 20th centuries, and what might be the prospects for countries like China, India and Indonesia in the future. In particular, he looks at how the United States got to be where it got to be when he wrote his book.

The Making of a Car-buying Nation

Hoffer begins his book with a simple statement that sets the stage for his treatise, that "the quality and destiny of a nation are determined to a considerable extent by the readiness with which those in its lowest strata are ready to take risks, how brave they are, how humane, how orderly, how skilled, how generous, how independent or servile, by the bounds they will not transgress in their dealings with a man's soul, with truth and with honor." On the rise of America, he says that history "contrived an earth-shaking joke when it lifted by the nape of the neck the peasants, shopkeepers,



laborers, paupers, jailbirds and drunks of Europe, dumped them on a vast, virgin continent and said. 'Go to it; it is yours!'"

When Hoffer wrote his book in 1963, the population of the United States was 188 million and New York had the most inhabitants with 17.4 million. In the prior year, 1962, a total of 6.9 million passenger cars were sold (equivalent to the number of light vehicles today, which include passenger cars, SUVs and light trucks) and 65.6 million passenger cars and taxis were registered and on the roads in the country. California was the largest car market even back then with 11% of the total of registered vehicles.² Over 9 million cars were produced by the U.S. car manufacturers in that year, 41% of the total global production of around 22 million.

In 1963, it felt like the U.S. and the Soviet Union were in a neck-and-neck drag race to the moon and the rest of the world's countries were disappearing in their rear view mirrors.³ However, when it came to building and buying cars, the U.S. had crossed the finish line and was celebrating in the club house while the Soviet Union hadn't even fueled up and started its engines. American shopkeepers and laborers and the rest of the country had gotten the car driving and riding bug more than any other country, and that would not change for almost another half century. In fact, if you consider multiple factors simultaneously and not just how many light vehicles have been sold, the U.S. is still leading the pack. I plotted annual sales of light vehicles against sales per inhabitant (see next page). China has a long way to go before it catches up to the U.S. The closest competitor is Japan. Looking at where the U.S. and China were in 1963 tells another interesting story. Take a look at where both China and the U.S. were in 1963 on the *Sales per Inhabitant* chart. China had a population of 667 million and sold around 150,000 vehicles. Like the U.S., it had one-half the number of its current population, but in half a century it went from almost no cars sold to 24 million.⁴ Both countries doubled their populations, and the U.S. essentially doubled its sales, but China increased its sales by a factor of 160!

What determines how many cars are sold in a country? Have you ever stepped back and asked yourself that question? Why are so many cars being sold in China right now and so few sold in Russia? Is total population the deciding factor? India has almost as many inhabitants as China but it sells less than one-seventh the number of light vehicles each year, and fewer cars annually than Japan

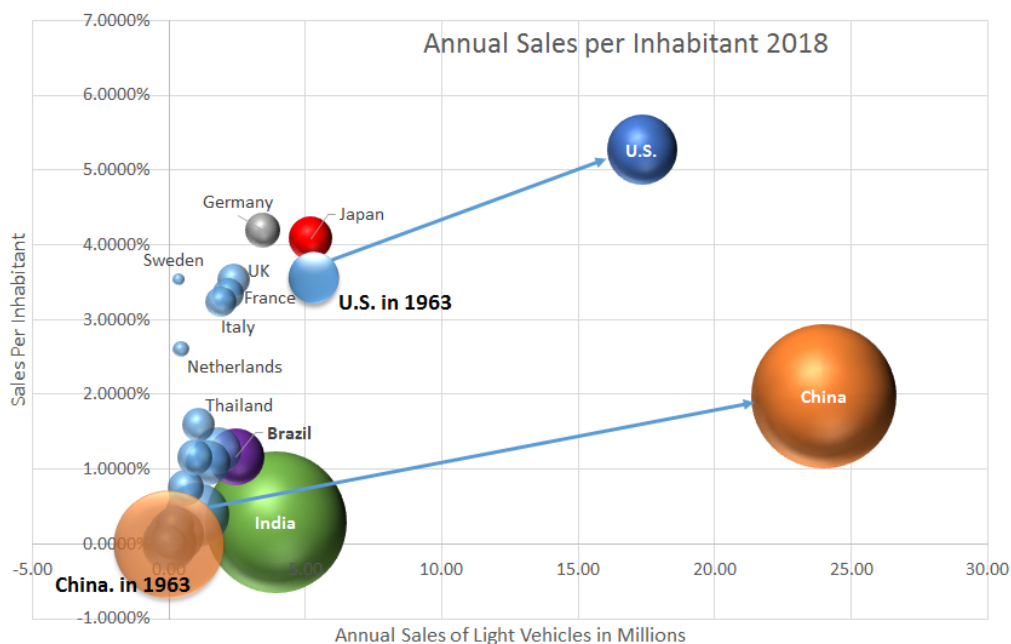
2. Statistics from the *Statistical Abstract of the United States (1963)*.

3. I passed my driver's license test in 1963 and, when the stars were aligned, I would have the privilege of driving my father's car, a 1964 Dodge Polara, until I bought my first car in 1967, a 1961 VW Beetle.

4. Total vehicle sales for 2018 in China were 28.08 million. This included 11.53 sedans and hatchbacks, 12.18 SUVs, mini vans and cross-overs, and 4.37 million commercial vehicles. I was looking for the number that would match the U.S. light vehicle sales figure, which is 17.28, consisting of 5.49 passenger cars and 11.79 'light trucks' (SUVs, cross-overs, mini vans and pick-up trucks). There were apparently around 425,000 pick-ups sold in China in 2018, so the number for light vehicles is just over 24 million (11.53 + 12.18 + 0.452), not 28 million. I will use 24 million, update the text and the diagrams and send out a revised July edition before placing it on the web site.

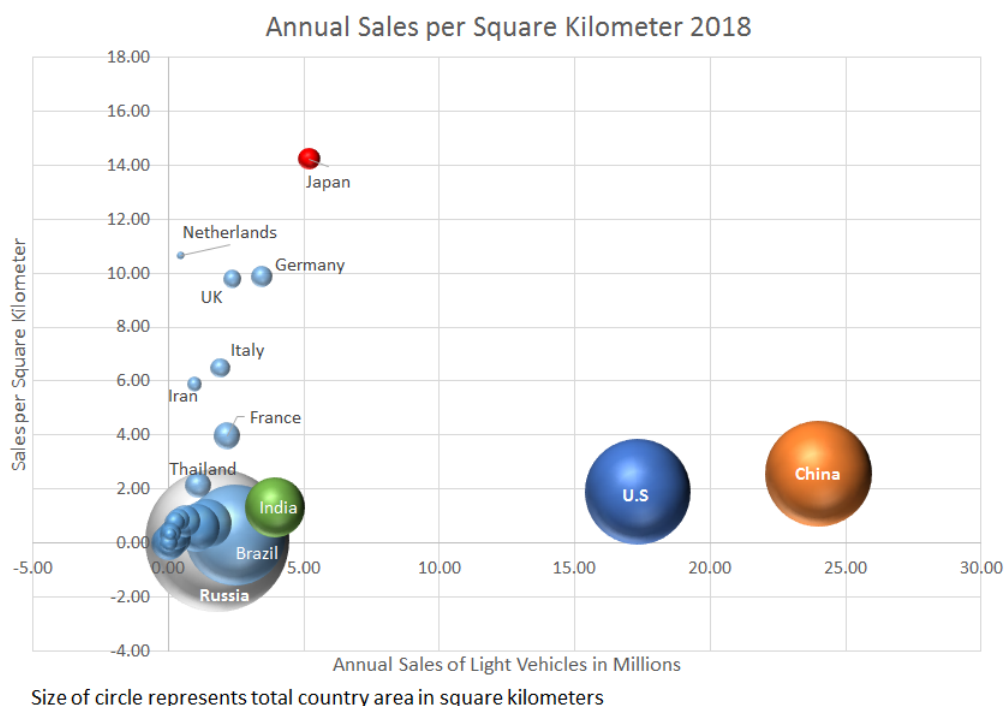
Source: *Marklines Automotive Industry Portal*.

that has less than one-tenth its population. The U.S. has one-quarter the number of people but sells more than one-half the number of light vehicles compared to China.



India definitely has the potential to make the same journey as China. It just needs to decide to make that journey.

Is it land area that decides how many cars a country sells? I plotted sales to land area and found no correlation. Russia has double the



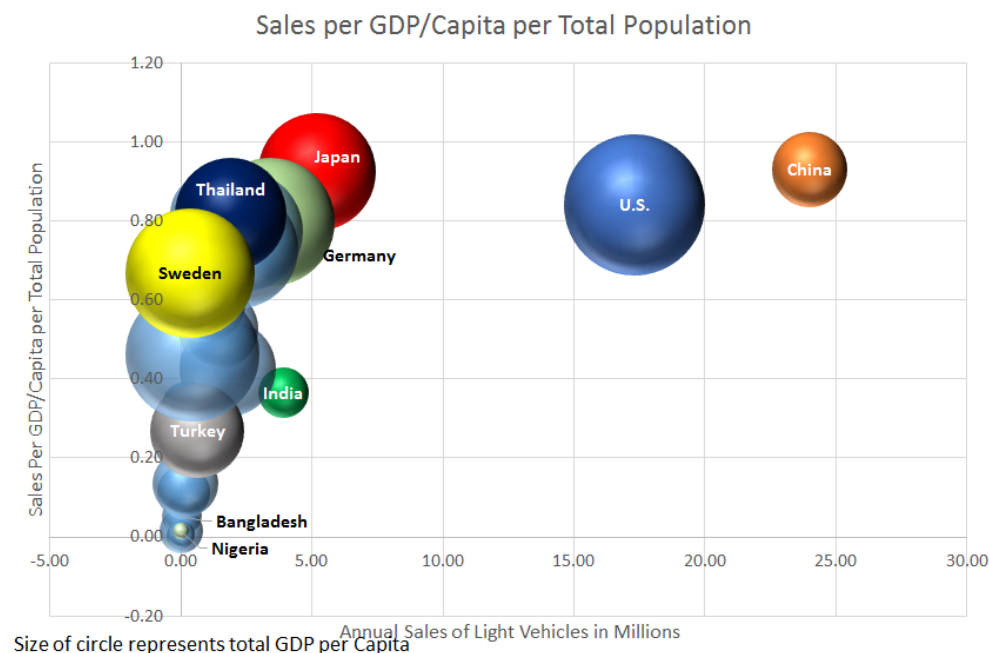
India, Brazil and Russia all have scope to grow their markets. Russia needs to make major structural changes in its government to allow those changes to take place. Brazil and India need to find ways to spread the wealth to its citizens.

land area of China but sells 6% the number of cars. Japan has 4% of the land area of the U.S., but sells 30% as many vehicles. Sweden, which is the third largest country in area within the EU (after France and Spain), is high up on the list of cars sold per inhabitant,

but drops down into the invisible category when sales are matched to land area. The Netherlands, which is one-tenth the size in land area, is among the top countries in annual sales per square kilometer.

How about wealth? Fireworks went off when China passed the U.S. in total GDP in 2014, but the U.S. has a GDP/capita that is 3.5 times higher than China's.⁵ However, the U.S. sells only 70% the number of light vehicles and has a sales per capita per population ratio of 0.84 compared to China's 0.93. Japan has a higher ratio than the U.S., and Germany, Thailand and Sweden are also right up there. It's in countries that have both a very low GDP/capita and extremely low annual sales of cars, like Bangladesh and Nigeria, that the ratio approaches zero.

5. The International Monetary Fund estimated that China's GDP at purchasing power parity was \$17.6 trillion at the end of 2014, or about 1% larger than the U.S. GDP of \$17.4 trillion. Measuring GDP at purchasing power parity takes into account the differences in prices that people pay for goods and services in different economies. Since the price level of China is still much lower than in the U.S., a dollar in China buys much more than a dollar in the U.S. (From The Globalist, September 26, 2015.)



If India can raise its GDP per capita, it certainly has the potential to increase its vehicle sales, while Japan, Germany and Sweden are probably close to their maximums.

China Discovers the Magic Potion

We can conclude from these numbers that it's, well, complicated. Nevertheless, we also find that it is not static, as the 1963-to-present China-U.S. comparison shows. Things can change. If we accept Hoffer's claim that a country's success is directly related to the amount of initiative its citizens can take for which they are rewarded, then what changed in China? What got it from almost zero to 24 million in thirty years? Hoffer said something else that may offer a clue, that there is an inverse relationship between the amount of influence exerted by the intellectual class in a country and the amount of individual initiative that is tolerated. Here is an excerpt from Hoffer's book (Remember, he wrote this in 1963):

"In the Communist countries the dominant intelligentsia is preoccupied with the highly practical task of industrializing a vast expanse of the globe's surface. Yes despite their fervor for factories, mines, powerhouses, etc., they are permeated with a disdain for the practical aspects of these works. Their predilection is for the monumental, grandiose, spectacular, and miraculous. They have no interest in the merely useful. (There seems to be) an almost total absence of liaison between research and practical application. The exceptional prominence given to the practical in America stems partly from the fact that we have here, for the first time in history, a civilization that operates its economy and government, and satisfies most of its cultural needs, without the aid of the typical intellectual."

In 1966, Mao Zedong, Chairman of the Communist Party of China, started what came to be known as the *Cultural Revolution*. Its stated purpose was to "preserve Chinese Communism by purging remnants of capitalist and traditional elements from Chinese society and to re-impose 'Maoism' as the dominant ideology." The 'Revolution' continued until Mao's death in 1976. Those who were persecuted most by the Red Guards⁶ were the remaining guardians of Chinese culture and the intellectuals, including teachers. Youths were encouraged to question their parents and teachers, a practice forbidden in traditional Chinese culture, and to attack those with so-called 'exploitative family backgrounds' (i.e., business people). Colleges and universities remained closed until 1970, and most universities stayed shuttered until 1972.

U.S. President Richard Nixon visited China in 1972, spending a week meeting with all of its officials, including Chairman Mao. He called his visit "the week that changed the world". Changes would not begin until after Mao's death, but then they would happen quickly. Deng Xiaoping, who had been banished by Mao for his liberal leanings, returned to government and assumed a greater amount of power. On December 18, 1978, at an important meeting of the Chinese Communist Party, Deng called for "a liberation of thoughts", urging the party to "seek truth from facts and abandon ideological dogma." This was the beginning of what became the economic reform era. Other leaders who had been purged during the Cultural Revolution were rehabilitated. The difference now would be that there was no longer an intelligentsia class.

As strange as it may sound, China has become the ultimate capitalist country, fulfilling the wildest dreams of the Rockefellers, Mellons and Carnegies in the late 19th century and the Bezos,

6. The Red Guards was a mass student-led paramilitary social movement mobilized and guided by Mao Zedong in 1966 and 1967, during the first phase of the Chinese Cultural Revolution. Their aims were as follows:

"Chairman Mao has defined our future as an armed revolutionary youth organization...So if Chairman Mao is our Red-Commander-in-Chief and we are his Red Guards, who can stop us? First we will make China Maoist from inside out and then we will help the working people of other countries make the world red...And then the whole universe."

Zuckerbergs and Gateses in the late 20th. China has become the supreme monopoly with the state and all of the country's companies fused at the hip, shoulder and head. The difference between China today and the Soviet Union of the past and present-day Russia is that the Chinese companies are managed by industrialists who are seeking profit while the state provides the money and sets all of the ground rules in the home market to favor the domestic players in all regards. There are no competition ministers as in the EU or laws prohibiting collusion or monopolistic practices as in the U.S. It should be no surprise to anyone that Jack Ma is a member of the Communist Party or that the money to buy shares in Western companies is provided by 'loans' from the state.

*QUALCOMM, INTEL, AMAZON, GOOGLE, GM, TOYOTA etc. are not competing with Huawei, Alibaba, Tencent and other Chinese companies; they are competing with **CHINA, INC.***

Does this make China a good or bad market for selling your cars in the future? It makes it an uncertain one. Ask Toyota, Nissan and Honda. When Japan challenged China in 2012 over who controls the islands in their vicinity, Japanese dealerships were attacked, cars were vandalized and sales evaporated. It wasn't soldiers that were doing the attacking and boycotting. It was the loyal populace, who are also employees of **CHINA, INC.** If you are a foreign car maker with both sales and manufacturing in China, you are at the mercy of your home government, and you will surely try to exert maximum influence with that government to treat **CHINA, INC.** as a customer. If you are a car maker without production in China, you can be wiped out by a tariff war or by a simple wave of the hand that favors domestic brands.

What About the Continental Conjoined Twins

South America and Africa, once a single continent, are the worst performers from an economic standpoint in general and from a car sales perspective in particular. Except for Brazil, which has one-half of the continent's population, and Argentina that has annual sales of around 800,000, no other South American countries appear on the radar of car manufacturing companies. The largest market for cars in Africa is South Africa, where approximately 500,000 are sold annually. This is with a population of 55 million. Unfortunately, it is a major exception for the continent. What's missing on these continents that causes them to be such economic laggards?



The Continental Conjoined Twins: 150 million years ago, South America and Africa were one.

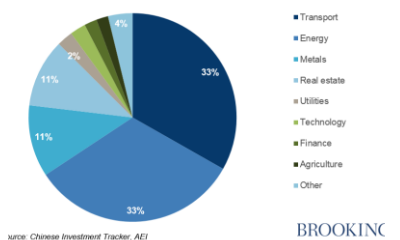
None of the answers I found on this subject were either satisfying or encouraging for the future. Studies on Africa point to colonial pasts, countries whose boundaries were drawn on maps by the colonizing powers with no regard to historical or cultural similarities among people and the lack of business acumen. In the South American countries, the inability for whatever wealth that exists to be shared more equally among those few that have with the masses that have not has held back economic growth.

Something is happening in Africa, however, that may change this picture. Since 2015, China has been providing financial support to African countries, the largest amounts to single countries going to Nigeria and Angola with 66% of the funds directed at transport and energy projects. \$60 billion was pledged in 2015 and at the Forum on China-Africa Cooperation (FOCAC) in September 2018, China President Xi Jinping announced a further \$60 billion. None of this money is an outright gift. It is in the form of credit lines, interest-free loans and investment financing. But it is money that would otherwise be difficult to obtain and it is helping to build the infrastructure needed for the countries to develop.

And Now for the Ultimate Questions

First, will China continue to grow as a car-buying market and will its political formula for success (i.e., COUNTRY, INC.) be adopted by countries that are struggling to make a go of it, either as communist copycats, wannabe democracies or anti-capitalist dictatorships? On the first part of the question, China is, for the first time since it began growing its car market, experiencing negative sales growth.⁷ This is a direct result of consumer uncertainty resulting from the tariff threats and counter threats with the U.S. and the government both reducing subsidies and tightening restrictions on car sales for environmental reasons. On the second part of the question, it does not seem to be making much headway in other communist states like Vietnam, where sales of 240,000 cars with a population of 97 million is hardly stellar.

The second question is whether the U.S. will continue to grow as a market for vehicles as its population grows and provide a good place for foreign brands to sell their cars. And will the erstwhile democracies, like India, Brazil, Philippines and Indonesia set their entrepreneurs free to pursue profits that are protected by good laws and businesses and are protected against corrupt politicians and gangsters? In other words, will they try to emulate the U.S. model? All of these countries are huddled in the lower left corner



China investments in Africa by sector

7. In May of this year, sales in China were 12.5% lower than they were at the same time last year. This is according to statistics from the *China Passenger Car Association*. In April, sales were down 16.6% compared to last year, March was down 12% and February was 18.5% lower.

of the graphs, and there are no clear indications that they are doing anything to move out of it.

Today, twenty-one percent of annual global sales are in the U.S., and it is still the most open market for both domestic and foreign brands. But Hoffer offers a warning that is incredibly prophetic and could apply to the U.S.: *"The full savor of power comes not from the mastery of nature but from the mastery of man. It is questionable whether he who can move mountains and tell rivers whither to flow has as exquisite a sense of power as he who can command the multitude and turn human beings into animated automata...With the advent of automation and the utilization of atomic energy it might soon be possible for a relatively small group of people to satisfy all of a country's needs and fight its wars too without the aid of the masses."*

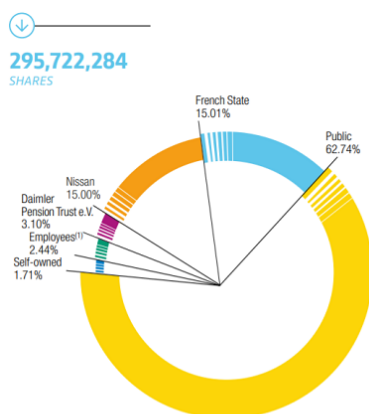
The very reason why the U.S. is what it is stems from the simple fact that everyone can be a consumer. If, through automation, more and more people become wards of the state, fewer and fewer people will be left to buy all those products being produced by the robots or by productive laborers in other countries. Hoffer goes further with his warnings. He says that when a country starts building impractical things it starts to get itself in trouble. It is a sign that the intellectuals are taking control. The fact that service companies that neither produce useful products nor employ in great numbers, like ALPHABET and FACEBOOK, have replaced industrial companies like GM and GENERAL ELECTRIC as the most valued domestic companies does not bode well in Hoffer's book.

If you are hoping to hold on to the markets that exist for selling your cars while new markets open up, it would seem that this is not the time for the U.S. to forget its successful storyline just at the time that China has re-written all the rules of the game and is promoting its own playbook over that of the West.

I am amazed at how much Rand, Orwell and Hoffer have gotten right. Orwell certainly had an influence on how the West viewed the Soviet Union, but Rand was dismissed by the practical politicians because of her polemic style. Hoffer was too modest to force the world to listen to what he was saying. Nevertheless, these giants of strategic thinking have something to offer us in our effort to understand how the world might evolve and provide some clues to the answer to our own particular question: Where will we sell our cars in the future?



FCA Cinquecento style (above) meets Renault Le Car economy (below). It was love at first sight, but it was a brief affair. It is my belief that FCA was used in a very clever way by Renault and its principal owner, the French state, to soften Nissan's objections to a full merger.



(1) The employee-owned shares in mutual funds corporate investment (present and former employees) included in this category.

Ownership Structure in Groupe Renault as of 31 December 2018. Source: Groupe Renault Financial Information.

FCA a Pawn in the RNM Alliance Game

As I WRITE, the deal is off. The deal offered by FCA to RENAULT and made official on the 27th of May 2019 was for the two companies to merge and become the third largest global vehicle manufacturer, after VW and TOYOTA. The plan was that owners of FCA and RENAULT shares would each receive 50% of the new company which would have its headquarters in The Netherlands (where FCA is currently headquartered).

Investors in both companies applauded. Their shares rose sharply in Milan and Paris. Such a merger is exactly what Sergio Marchionne had been campaigning for during his ten-year tenure as CEO of FIAT and the four years he was CEO of FCA, the merged FIAT and Chrysler companies. It was also Carlos Ghosn's dream to turn the NISSAN and MITSUBISHI cooperation agreements into a full-fledged merger in order to achieve a similar scale to that of a Renault-FCA. FCA and RENAULT would have a combined annual volume of around 8.7 million units in 2018 terms. If NISSAN and MITSUBISHI joined, the resulting company would be larger by 50% than either VW or TOYOTA.

Marchionne and Ghosn reportedly talked about a merger before the former's untimely death and the latter's legal troubles in Japan. Nothing every came of the talks. Likely, any conversation between the two strong-willed leaders would have focused on the question of who would sit in the CEO chair. Now, they were out of the picture.

Deals are made in heaven

BUT IT'S IN HELL where contracts are negotiated and signed. As soon as the name 'RENAULT' appears in the same sentence with 'deal' or 'merger' or 'takeover', skeptical antennae should be activated. Mine always are. That is because it is the French state, which own 15.01% of the shares in GROUPE RENAULT, WHICH makes or breaks all deals. In the end, it was the fear of French bureaucrats deciding how the merged RENAULT and VOLVO companies would be run that scuttled the takeover of VOLVO by RENAULT. How it got as far as it did is still a mystery to those of us who were working for VOLVO at the time. The same

fears of French politicians meddling in a merged RENAULT and NISSAN appears to have something to do with NISSAN rebuffing attempts by RENAULT when Ghosn was CEO to fully consummate the marriage of the two companies. How did the French government get into the position of being a significant and controlling owner of the ninth largest of the world's automobile manufacturers?

French Government Enters the Car Business

Let's start at the beginning, shall we. Three brothers, Louis, Marcel and Fernand Renault, built their first car, the *Voiturette*, in 1898. The following year, they founded the company and gave it their surname SOCIÉTÉ RENAULT FRÈRES (THE RENAULT BROTHERS COMPANY). The new company, located in the Paris suburb of Boulogne-Billancourt, sold twelve *Voiturette*'s in the first year of operation. It was Louis the engineer who designed and managed the production of the cars while Marcel and Fernand, having developed their business skills working in the family textile business, handled the money and administration.

Marcel was killed in 1903 while driving one of the firm's cars in the Paris-Madrid race. Fernand retired for health reasons in 1906 and died in 1909. Louis became the sole owner, renaming the company SOCIÉTÉ DES AUTOMOBILES RENAULT (RENAULT AUTOMOBILE COMPANY). Its big breakthrough came in 1905 with an order for a large number of taxis for Paris. From the start, RENAULT was known for quality and luxury, producing cars that could be bought only by the wealthiest patrons. It also started early to diversify, producing its first commercial truck in 1906. During World War I it delivered ammunition, military aircraft engines and tanks to the French war effort. Louis was awarded the *French Legion of Honour* for RENAULT's contributions.

Between the Wars, competition grew between RENAULT and CITROËN. CITROËN passed Renault in the early 1930s as the largest manufacturer in France. Then the Great Depression hit. CITROËN filed for bankruptcy and was acquired by MICHELIN. RENAULT made it through due to its diversification into tractors, railroad equipment, aircraft engines, weaponry and tanks. The company's handling of a workers' strikes during the period between 1936 and 1938. Pre-war France was a period when Socialists were in the majority in French government. It was a time of struggle between capitalism and socialism, and communists were taking advantage of the chaos. RENAULT broke the strike at its plants and fired 2,000 of its workers who were involved in leading and supporting the strikes. This would come back to haunt Louis after the War.



Renault's first car, the two-seater *Voiturette* (little car), was an immediate hit. Here is Louis in an early model.

After France was attacked by Germany in 1939, Louis Renault was sent by the French government on a mission to the United States to request tanks. When he returned in 1940, France had capitulated to Nazi Germany and German authorities took control over RENAULT's factories. Louis refused to produce tanks for the Germans, but his factories were used to produce trucks. This made RENAULT factories at the Billancourt plant prime targets for British and American bombers. Louis was determined to rebuild his buildings and restart his business as soon as Paris was liberated, which occurred in September 1944, but he found himself in the middle of communist and capitalist rivalries that deepened during the War. Charles De Gaulle became president of a provisional government and had to manage, on the one hand, the demands of the Communist Party which had been key members of the French resistance during the War, and the anti-communists on the other hand who saw the Soviet Union's fingers in the Communist Party's every move.

At a meeting of the Council of Ministers on the 27th of September 1944, the new government decided to "requisition", as they called it, the RENAULT factories. Louis Renault was accused of collaborating with the Germans. He turned himself in, was arrested and sent to prison to await trial. A month later he died in a hospital after being transferred there from prison. According to accounts from family and friends, he died as a result of being tortured by prison guards and beaten by inmates. On the 1st of January 1945, by de Gaulle's decree, the company was posthumously expropriated from Louis Renault. On the 16th of January 1945, it was formally nationalized as RÉGIE NATIONALE DES USINES RENAULT (NATIONAL GOVERNANCE OF FRENCH FACTORIES).

Apparently, RENAULT's factories were the only ones expropriated in this way by the French government. The Renault family tried to have the nationalization rescinded by French courts and receive compensation. In 1945, and again in 1961, the Courts responded that they had no authority to review the government's actions. An administrator, Pierre Lefauchaux, was appointed to run the company. He had an engineering background, joined the resistance but was captured early on and spent the War in a German prisoner of war camp alongside one of the country's Socialist prime ministers. He seemed competent enough to resist calls by government bureaucrats to focus only on trucks and stop producing cars.

A succession of government-appointed CEOs followed Lefauchaux. By 1984 the company was losing a billion French francs a



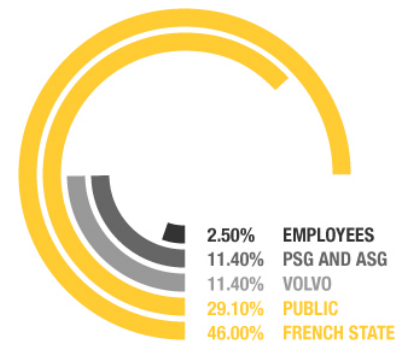
month. George Besse was called in as CEO to stop the bleeding. Besse had worked his way through a number of state-owned companies and had a reputation of being a turnaround artist. Within two years, Renault turned a profit at the cost of numerous plant closings, 21,000 laid off workers and his own life. He was assassinated outside his Paris home by the terrorist group *Action directe*, apparently in retaliation for his efforts on behalf of the French government to keep Renault in business.

The Penny finally dropped in Paris, partly

It took almost another ten years and the collapse of the VOLVO-RENAULT merger for the French government to decide that the company's state-owned status was a detriment to RENAULT's future. In 1994, while Louis Schweitzer was RENAULT's President, it was officially announced that RENAULT would sell shares to public investors. The company was privatized in 1996, reducing its ownership to 46% and selling 29.1% to the public. VOLVO kept its 11.4%, employees had 2.5% and a shareholder's group (PSG) had 5%. The French stake has been as low as 15.01%, which is where it is at present. In April 2015, the government upped its stake to 19.73% in order to block a resolution at an annual meeting that would have reduced the state's control of the company. It succeeded in blocking the measure and in November 2017 reduced its stake back to 15.01%.

That 15% continues to give the French state the final say in anything RENAULT does. Two days into negotiations between Renault and FCA, after FCA shareholders had approved the agreement worked out between FCA's Chairman John Elkann and RENAULT's Chairman Jean-Dominique Senard, FCA left the negotiating table and withdrew its offer. Senard said publicly that the French state's meddling was "unfortunate". Bruno Le Maire, the French Minister of Finance, said he thought the merger was an "interesting opportunity", but it should be carried out in the context of "a strategy to reinforce the RENAULT-NISSAN alliance."⁸

"As long as the French state is the main shareholder," said Le Maire, "its responsibility to the company, its employees, its factories and research centers is to fulfill its role with other shareholders in defining a strategy." When Nissan said it would abstain at a RENAULT board meeting to vote on the merger proposal, Le Maire requested the RENAULT board to postpone the vote for five days. That's when FCA walked out. "We simply asked for five extra days. Five additional days seems entirely reasonable to me," Le Maire



July 15, 1996: Renault privatized on July 15, 1996. French State reduced its holding to 46%. Source: Groupe Renault Key Financial Figures. (<https://group.renault.com/en/finance-2/financial-information/key-figures/>)

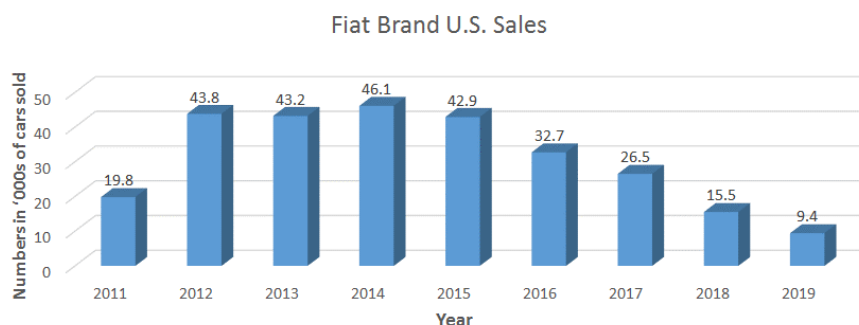
8. France's Finance Minister Bruno Le Maire answers a question during a news conference of the G20 finance ministers and central bank governors on 13 June 2019, reported Reuters.

said. "FIAT withdrew its offer, as it was entitled to do. But believe me, the state will never react under pressure."

Where does FCA go from here?

Renault already has two dancing partners in its Alliance, NISSAN and MITSUBISHI. FCA might have thought that RENAULT would put the Alliance to the side if it had a chance to fully merge with a company that wanted a merger. It appears now that FCA was played by Senard and the French state. Make the Japanese nervous about the future by talking up a merger with FCA, then show how much it valued the Alliance when negotiations begin. RENAULT has definitely not dropped its plans to pull NISSAN and eventually Mitsubishi into a full merger, even though it has agreed to an Alliance operating board in which all three companies are equal members.

What about an FCA merger with another French company, GROUPE PSA? There's that old connection between the companies when, in 1978, PSA bought CHRYSLER EUROPE. That didn't go well. Then there is the French state connection again. The French state owns 13.68% of PSA and the Peugeot family and DONGFENG MOTOR GROUP each also have 13.68%. What about GM or FORD? FCA generates more than one-half of its sales from its *Jeeps*, *Voyager* vans and *Ram* pick-ups. These models compete directly with the vehicles from which GM and FORD generate the majority of their sales and profits. Its *Chrysler* sedans are not selling, just as GM's and FORD's passenger cars are not selling. FCA's *Fiat* brand is fading fast in the U.S. It sells as many cars in a month in Europe (around 46,000) as it sold in its best year in the U.S., which was in 2014.

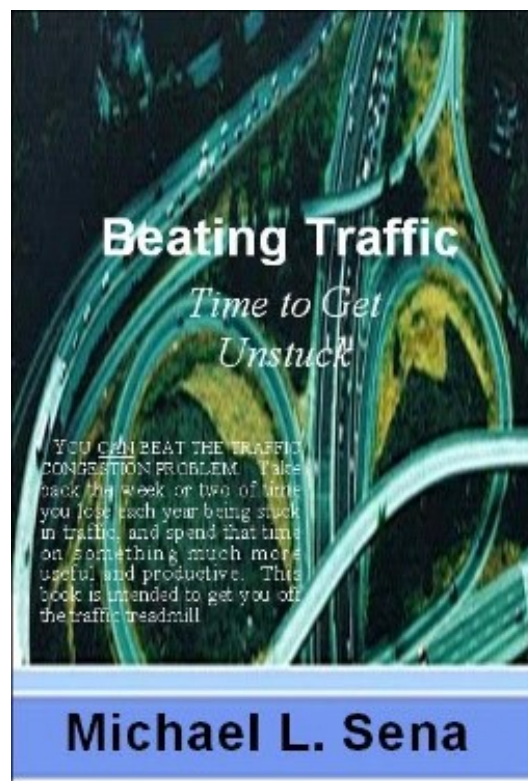


We're back to RENAULT. FCA may have to return to the table as one of the equal partners in the Alliance, as one among a group of four, and accept that a fifth chair reserved for the French state will always be there. That may be a difficult pill for the Agnelli family to swallow, but it may be better than any other option.

About Michael L. Sena

Michael Sena, through his writing, speaking and client work, attempts to bring clarity to an often opaque world of vehicle telematics. He has not just studied the technologies and analyzed the services, he has developed and implemented them. He has shaped visions and followed through to delivering them. What drives him—why he does what he does—is his desire to move the industry forward: to see accident statistics fall because of safety improvements related to advanced driver assistance systems; to see congestion on all roads reduced because of better traffic information and improved route selection; to see global emissions from transport eliminated because of designing the most fuel efficient vehicles.

This newsletter touches on the principal themes of the industry, highlighting what, how and why developments are occurring so that you can develop your own strategies for the future.



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