Economic Perspective 4

THE FUTURE OF COMMERCIAL VEHICLE MANUFACTURE IN THE UNITED KINGDOM

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Concern as to the future levels of car and commercial vehicle manufacture in the United Kingdom have arisen once again with the announcement of possible takeovers and mergers. Exploratory talks with Ford on a takeover of the Austin Rover division of British Leyland proved to be short-lived in the face of Parliamentary opposition. Nevertheless, the frequency in recent years of such discussions with other motor manufacturers - General Motors, Honda and Fiat - suggests that similar talks will feature again. In addition, parallel talks with General Motors on the possibility of a takeover of the majority of the commercial vehicle division of British Leyland seem set to continue.

There has been general agreement amongst analysts that General Motors' share of both the European and British commercial vehicle market would continue to decline in 1985-1986. General Motors' response has been to seek the purchase of another commercial vehicle manufacturer to bolster its share of the market. In June 1985 it commenced negotiations to purchase M.A.N. of West Germany (currently holding 5% of the European markets). When this purchase fell through it turned its attentions to EMASA of Spain. When, in turn, these talks failed, General Motors began discussions on the possible acquisition of Leyland Vehicles.

With few exceptions European commercial vehicle manufacturers face common problems: a near saturated market, increasing losses, and the possible rise of Japanese competition in the light van sector. For United Kingdom manufacturers these problems have been further complicated by the implications of legislative changes with respect to permitted trailer weights and increased overseas competition, the share of the market held by imports having risen from 24% to 34% between 1980 and 1983. Collectively these pressures have been the main reasons for contractions in manufacturing capacity.

Table 1 Registration in UK of goods vehicles by country of origin

	1980	1981	1982	1983
Belgium			675	1,107
France	6,475	6,062	8,876	12,672
W Germany	18,364	16,591	19,200	20,325
Italy	3,502	3,897	4,085	9,232
Japan	26,064	31,721	21,154	27,703
Netherlands	1,926	1,819	1,869	2,371
South Africa			3,490	7,439
Spain	3,023	3,362	4,714	4,351
Sweden	4,128	2,810	2,420	3,395
UK	201,216	146,070	159,845	173,424
Others	1,550	1,039	1,416	2,106
UK as % of total	75.6	68.5	70.3	65.7

Source: SMMT, 1984

Table 2 Registration of goods vehicles in 1983 by make

Type	Bedford	Bedford (Japan)	BL Cars	Leyland Vehicles	Ford UK	Ford imports
Light vans	16,898	-	25,256	-	22,352	4,243
Medium & heavy vans	11,897	1,278	14,209	-	41,723	7,439
Light 4x4 & utilities	-	136	6,768	-	-	-
Rigid trucks	5,560	-	-	6,207	10,042	-
Artics	614	-	-	1,269	577	-

Source: SMMT, 1984

Tables 1 and 2 illustrate the gradual growth of imports of commercial vehicles. About 9% of imports are via UK manufacturers. Ford's imports of light vans from Spain represents 98% of imports from that country and its imports of medium and heavy vans constitute 100% of imports from South Africa.

Whilst imports tend to be of the lighter commercial vehicles there is a trend towards developing European rather than national models. As commercial vehicle manufacturers continue to reconstruct their European activities the volume of transnational trade will increase. This will render BL increasingly vulnerable, unless it merges.

Corporate policy for multinational commercial vehicle manufacturers appears to be following the pattern established earlier for private cars. The bus and coach division, is still essentially organised along national markets, although as Table 3 demonstrates imports have significantly increased their share of the market.

Table 3 Registration of coaches and buses by make 1980-1983

	1980	1981	1982	1983
Bedford	905	524	346	284
Leyland	3,059	2,332	1,844	1,801
MCW	-	-	214	415
Imports	491	436	647	784
Import share of market	8.5	9.8	17.2	21.1
Leyland and MCW share	52.8	52.5	54.6	59.7

Source: SMMT, 1984

As is clear from Table 2, the bus and coach sector faces both a declining market and rising imports. The Laird Group, which controls MCW is seeking to control the market and reduce overcapacity by acquiring Leyland Buses. As Table 3 demonstrates, such mergers would dominate this sector as it enters a period of uncertainty about market size following the deregulation of road passenger transport.

Disaggregation of UK production statistics suggests that a takeover of Leyland vehicles by General Motors would result in considerable changes to the production of both firms plus the level of Japanese imports.

There are four elements to British Leyland commercial vehicles. First, BL cars produce light vans and vans based on car bodies. Secondly, Range Rover, based at Solihull, produce 4 x 4 and utility vehicles. Recently, Range Rover has undergone a rationalisation of production, reductions in employment and heavy investment in new production facilities. Thirdly, Leyland vehicles produce the heavier commercial vehicles and the fourth element is the production of Leyland buses. The current proposals involving General Motors are for the takeover of Range Rover and heavy goods vehicle divisions. However, under this proposal, BL Cars would still retain a considerable commercial van production capacity (see Table 2). It would be difficult to divest from BL Cars those vans deriving from private car vehicles. General Motors would still be in third place in this sector behind Fords and BL Cars. If General Motors sought expansion in this sector such expansion would most probably be via collaborative arrangements with a Japanese producer. By providing access to two major distributor networks, such an arrangement would offer the opportunity for Japan to significantly increase its share of this market which is currently only 8%. Land Rover already faces increasing competition in the light 4x4 vehicle market and would be considerably vulnerable. Distortion of this market by imports would have a 'knock-on' effect on the Austin Rover division.

It would be naive to assume that guarantees and assurances between the Government and any purchaser would be sufficient to ensure current employment and output levels. The experience of such agreements with Chrysler in 1976 and PSA in 1978 do not provide much optimism for similar arrangements in the future. Moreover, analysis of GM and BL goods vehicle production indicates considerable duplication of models. There would be the need for some rationalisation of models. Given the greater age of Bedford vehicles, this suggests that Bedford might suffer disproportionately in any such rationalisation. Additionally, the figures clearly indicate the effects of integrating production into a multinational context. Fords import 16% of their light vans and 15% of medium and heavy vans. Volvo imports 52.3% of its rigid trucks and 80.8% of artics. Thus a product of any takeover would, almost inevitably, be an increase in the sourcing of vehicles from abroad and a consequent reduction of investment and production in the UK.

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