

ECONOMICAL CRISIS AND BUSINESS STRATEGIES: FASA-RENAULT IN SPAIN DURING THE SEVENTIES

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1. Introduction

FASA-Renault became the leader in sales in the Spanish car market through the seventies. It also became the leading car manufacturer in Spain. The Spanish car market contracted in five years during the period 1970-80, and its growth was above 10% only in two years. In contrast, FASA-Renault's sales increased along the whole period, and they even grew at a rate above 15% in 6 of these years. In addition, production increase was even higher than that of sales. FASA-Renault found in exports a solution to the Spanish market limitations. The objective of this article is to show those factors that allowed FASA-Renault to success during the oil crisis that strongly affected the Spanish industry.

2. Background of the automotive industry in Spain (1953-1972)

The Spanish automotive industry started in the middle of the twentieth century when SEAT and FASA companies were founded. Both companies manufactured rebadged cars models under the license of foreign companies. SEAT manufactured rebadged FIAT cars and FASA, rebadged Renault cars. In 1953, both companies launched their first vehicles. In that year, a total amount of 2.052 cars were manufactured in Spain. The country was ranked eighteenth in the car manufacturing countries ranking. However, twenty years later it was placed in the tenth position, with a yearly output of 632,585 vehicles. In 1973, along with SEAT and FASA, operated Citroën-Hispania, Chrysler-España (Barreiros) and AUTHI. Between 1953 and 1972, the automotive industry's output grew 33.2 % annual average. Which are the factors that explain this phenomenal growth of the Spanish automotive industry?

The number of companies is the main difference of this two-phase period of the Spanish automotive industry growth. The interval 1965-1967 might be considered as the inflection point of the ending of the first phase and the beginning of the second. Until 1965, the Spanish auto market was, in fact, a duopoly: FASA produced (and sold) between the 25% and the 33% of all the cars produced in Spain, while the rest was produced by SEAT. With them, since 1961 Citroën-Hispania began car producing, although its output was almost symbolic¹. Since 1965, the domestic auto market begins to be more competitive. In 1966, Citroën production brushed the 25,000 units, while Barreiros almost reached the 50,000 vehicles². Apart from these two manufacturers, a year later AUTHI will appear. The company, under the license of British Leyland, reached in 1967 a production of 20,000 units. And, last but not least, at this period ends the traditional gap between supply and demand,

¹ Citroën Hispania production in 1961 was 1,345 vehicles. In 1964 increased to 8,160 units (Catalan, 2000, p. 150).

² Barreiros produced the models Simca 1000, Simca 1300 and Dodge Dart.

which caused the immediate discharge of the market. With this ending, the companies were forced to develop new business strategies in order to sell cars³.

However, despite the increasing of the competition, there is a significant presence of the factors that explain the development of the Spanish automotive industry during the whole period. In its initial stage, the market was practically empty. In addition to this situation, it was completely closed to the foreign production⁴. And finally, the Spanish Government had the legal authority to determine which business and under what conditions could be established in Spain.

On the other hand, FASA (FASA-Renault) increased as well its production: from 707 cars manufactured in 1953, the company reached 138,748 cars in 1972. This implies a 30.21% annual average growth. Since the exportation was almost residual among the companies installed in Spain, studying the penetration of FASA-Renault in the Spanish market provide us the key factors to understand the evolution of the company. During the 50's, while FASA had no trouble selling its car production, the company had to struggle a lot in order to increase it. And this was not trivial, since any increase of the production was immediately absorbed by the market.

Between 1954 and 1960, FASA car production decreased from 39,2% to 20% of all the car production in Spain. These rates indicate that FASA could not follow SEAT as a dynamic industry. The main cause was the sluggish investment from the main shareholder, Banco de Santander. The main conflicts stemmed from the difficulties of incorporating the rates of the domestic production required by the Spanish Government. (Fernandez-de-Sevilla, 2010b).

FASA take off did not really begin until 1961, when Banco Ibérico took control of the company. The bank decided to increase the investment and the results were immediate. Although Citroën-Hispania had joined the two pioneers, FASA car production increased to 26.6% in 1965. FASA began at this very moment its great expansion, which lead the company to exceed 100,000 units annually in 1971. It was also the year that Renault bought the company and became its largest shareholder, turning FASA into FASA-Renault⁵. Quickly, Renault increased its production and modernised its production structure. FASA-Renault became the largest car plant of Renault outside France (Fernández-de-Sevilla, 2010a).

However, with an increasing number of manufacturers and despite the significant increases in production, the production of FASA dropped to 20.6% in 1970. Times had changed and, in the late sixties, the key of success was not only increasing the production, but having a sales network able to place it in a market increasingly competitive. The commercial experience of Renault was a key factor in order to solve the situation, because the Spanish car market was suffering the very same problems that occurred in the French car market during the 50's. During the second half of the 60's, Renault supplied to its Iberian subsidiary the departments of

³ These include the expansion of the range (more models and more variants) and the creation of their own financial. In addition, the companies began to consider foreign markets as an outlet for their excess feasible production.

⁴ In an almost complete closed market (quantified by 90% on home sales price) a quota on imports (import quotas determined how many vehicles and from which countries could be imported) was added.

⁵ Banco Ibérico continued as a minority partner.

marketing, distribution as well as those of management (Fernandez-de-Sevilla, 2010a). The results of that strategy appeared a decade after. In 1975, FASA-Renault car production was the 28.2% of the Spanish total amount⁶.

The most significant fact is, despite entering a period of crisis and increased competition and unlike what happened with the Spanish total output, FASA-Renault was constantly growing throughout the decade of the 70's. In 1980, the car production of the company represented the 30.9 % of the Spanish total amount. At the same time, FASA-Renault car sales in Spain were growing as well, although the Spanish car market reduced in four of this ten years period. In 1980, FASA-Renault car sales accounted for 37.1% of the Spanish car market. The following report seeks to explain the keys to the success of FASA-Renault during a decade characterised by a global economical crisis and by the decline of the automotive industry. To do so, before analysing what happened in Spain, it is important to explain what was happening in the rest of the countries at that time.

3. The success of Japanese cars during the financial crisis of the seventies

The treaty period can be characterised by the ending of the post-war economic euphoria. The first signs of the crisis appeared at the late 60's, and were in full force since 1973, reinforced and catalysed by the outbreak of the oil crisis. In just two months –October, 16th and December 23rd, 1973–, OPEC imposed two spectacular increases in oil prices by multiplying them by four. This increase of the prices had a dramatically impact on the western countries because coal has been supplanted to oil as the main energy source.

Of all the structural imbalances that undermined the growth of the economies of the OECD, we have to remark the collapse of the international monetary system from Bretton Woods; the productivity slowdown due to the exhaustion of the innovations from the second industrial revolution; the wage increases above productivity -a result of the strong inflation-; and the fall in corporate profits, also a result of the reduced profit margins, which involved a general fall in investment.

The crisis affecting the international economy during the 70's was basically an industrial one. The great inflation affected most acutely the industry than any other economic activity, except transport. It was a severe blow to the automotive industry. And it supposed an inflection point for the car industry that was forced to implant major structural changes. However, not all car manufacturers reacted so quickly to those signs of crisis. The first to adapt their industries were the Japanese. The Japanese car industry introduced a new productive model that eventually would destroy the prevailing Fordism⁷. In turn, their success led to increased international competition.

After the take-off that took place in the 50's and 60's, the Japanese car industry consolidated throughout the 70's and the 80's. From 1950-1973, Japan rose from tenth to second in the ranking of car manufacturing countries (units produced). Between 1973 and 1996 Japan consolidated its position, but increased its influence,

⁶ Although at this time exportation represented a significant percentage in the structure of society (18.6%), the weight of the FASA-Renault sales in the Spanish market was almost the same (28.2%).

⁷ A characterization of Fordist and Sloanist production methods in Boyer and Freyssenet, 2000.

because the production happened to represent 55% of U.S. output to reach 88%. Moreover, in these years there was an internationalisation of Japanese firms that were introduced in U.S. markets, Europe and Asia through productive investments (Catalan, 2000, pp. 137-138). However, the success of Japanese companies will take place in the U.S. market, less protected than the European.

The success of Japanese car companies comes from the adoption of certain production practices that break with the usual methods so far. In the early 90's Womack launched the *lean production* concept that defined a set of practices that would shape the Japanese production model (Womack, Jones and Roos, 1990). From an analysis of production structure of Toyota and Honda, they concluded that there was a Japanese production system more competitive than the West system. Therefore, the *lean production* would be a new production paradigm implemented by Asian manufacturers, which challenged the prevailing production systems.

The application of the *lean production* was the adoption of the *Just-in-Time* system; the outsourcing of production activities and services that are essential of the core activities of the company; and teamwork methodology based on a versatile organisation and job rotation. These practices tried to seek lower costs and the increasing of efficiency by continually improving the production system, reducing production times and processes that added no value to the product (Sohal and Egglestone, 1994 and White, Pearson and Wilson, 1999).

However, others argued that such theorising analysis stemmed from a particular synthesis of the productive systems of two firms with different strategies. They considered that *lean production* represented a conceptual confusion and not a real production model. In their point of view, Japan had started two distinct productive models: the Toyota, based on an ongoing strategy to reduce costs, and Honda, based on innovation and flexibility (Boyer and Freyssenet, 2000).

Toyota's success comes from its ability to increase profit margins in several ways: by substituting capital for labour; eliminating waste, -time, labour or capital waste-; improving the production system; achieving price reductions from suppliers; relocating production to countries with lower costs; or lowering fixed costs through the elimination of stocks (Boyer and Freyssenet, 2000). Toyota was looking to save in financial, material or human resources. And, on the other hand, the company did not invest in innovation –once the market had validated innovation, the company would be copied-, did not increase the volume of production -which it only increased if there are enough financial resources-, and did not diversify car models –new models would be launched when required by the market.

In order to achieve greater competitiveness, workers at Toyota were involved in this policy of cost reduction in exchange for job security. And also, with the aim of reducing downtime, they accepted to be paid according to their labour efforts (Shimizu, 1999)⁸. Finally, it was necessary that providers applied the same standards of production and adapted to *Just-in-Time* system⁹. Loyalty to suppliers was necessary to do so. It should be noted Toyota's confidence in its production model. It should be noted Toyota's confidence in its production model -initiated in the early

⁸ This point prevented that the model could be deployed in the West Europe of the 70's and 80's.

⁹ The Japanese components industry is studied in Sako, 1994 and 2000.

50's. When the market became a mass market –in the 60's– Toyota is not rethinking its strategy. So Toyota could reap the benefits during times of market contraction.

For his part, since the 60's, Honda based its strategy on innovation and flexibility (Boyer and Freyssenet, 2000). Innovation must be jointed to flexibility, because it is necessary both the ability to quickly abandon a car model that has not convinced and to increase production when innovation gets a good market response. The aim is to create and exploit as much as possible the income derived from innovation. Therefore, the company must anticipate new market expectations¹⁰. As the strategy was not based on price, Honda oriented its strategy towards export¹¹. During the 70's and 80's, the success of this strategy was unquestionable. In 1990, Honda had doubled the production from 1980, becoming the eighth global manufacturer. Its main market was the U.S., where placed 50% of its production, followed by Japan (35%) and Europe (9%).

4. Renault and the French automotive industry throughout the crisis

Next to the Japanese success and despite the global crisis of the sector, two French automotive manufacturers -Renault and Peugeot- experienced a period of growth through the 70's. After a quickly drop in sales that began in autumn 1973, the two companies grew rapidly from 1975¹². The good dynamics of the two manufacturers was cut short by the second oil shock occurred in 1979 and which involved an even greater crisis. In the 80's, both Renault and PSA were dying.

Picking up the inheritance prior to the 2nd World War, during the early post-war years, Peugeot continued as a specialist manufacturer of upper-middle range cars. It was not until 1965 that the company changed its strategy. Its new goal was to become a mainstream manufacturer and lead the company to make lower-middle range cars. The first was the Peugeot 204. From now on, Peugeot was dedicated to constantly expand its offer. Beside the 404 model -released in 1960- and 204 model, the 104, 304, 504 and the 604 V6 were launched. The best-selling models were the 204 (1100 cm³), the 304 (1300 cm³) and, above all, the 504 (2000 cm³).

Peugeot could overcome without difficulty the first oil crisis and the subsequent collapse of the market for two major reasons. First of all, when demand reclaimed small models, Peugeot 104 and 204 models were perfectly suited to the new trend of the market. Secondly, at the time that gasoline reached its highest price, Diesel fuel proved to be a great substitute for gasoline. This was the main feature of Peugeot, because it was the only auto manufacturer that included diesel engines in all its cars¹³. The success of Diesel Peugeot allowed the company to achieve an

¹⁰ This strategy, developed by Honda from the 60's, had been applied by Chrysler and Citroen in the 20's. However, the success of Honda, made it applied again for Chrysler in the 80's and for Renault in the 90's (Freyssenet and Lung, 2000).

¹¹ Honda's main innovation was the Compound Vortex Controlled Combustion: a 1500 cm³ engine that limited pollution and reduced consumption. It was applied to the Honda Civic in 1973 before the rise of the gas prices. The recipient of the model were the young Americans who demanded reliability, elegance, sportiness and different body variants (Boyer and Freyssenet, 2000). In 1976 it reached one million units sold, two millions in 1979 and three in 1982 (Mair, 1994).

¹² In 1974 sales fell by 12.7% (Loubet, 2001, p. 374).

¹³ Peugeot built its Diesel engines in 1959 for the first time and, despite the different troubles of the engine, the company always confide in their success (Loubet, 2001, p. 379).

unprecedented success in the upper-medium segment. The 504 became the second best selling car in France, second only to the R-5. Peugeot decided to use this boom to expand worldwide.

By contrast, the first oil shock uncovered major structural difficulties of Citroën. On the one hand, the company did not have models like the R-5 or 104. Its range was composed of old models, unattractive and very high consumption. Changing the range required large financial efforts that Michelin family was not willing to support, because its strategy was to focus on tires. Michelin proposed Peugeot to acquire its automotive subsidiary. The first agreement was signed in March 1974. The final purchase occurred on September 30, 1976 through an exchange of shares. Peugeot SA became PSA Peugeot Citroën¹⁴. For Peugeot, one of the most positive aspects of the acquisition of Citroën was to consolidate its position in Europe, and above all, entering Spain. At the same time, the president of Chrysler-France proposed to its counterpart in Peugeot the acquisition of the U.S. subsidiary. The agreement, reached in 1978, meant that PSA absorb Chrysler subsidiaries in Europe¹⁵. Adjacent to Peugeot and Citroën, PSA automobile created a third division. It was Talbot, comprising Simca (France), Rootes (UK) and Barreiros (Spain).

Renault could also overcome the effects of the crisis and strengthen its leadership in the French market¹⁶. Renault overcame crisis thanks to the success of R-5¹⁷. The R-5, whose planning began in 1968, was released in 1972, just one year before the outbreak of the first oil shock. It was a model that was inspired by an authentic standard of the Régie: R-4. It should share with it the price and the conceptual definition, but also it should incorporate a more modern and nice bodywork. During the design of the R-5, the competition -Fiat and VW-, were approaching the car concept embodied by the versatile R-4. This situation led Renault to redirect the prototype of the new model to a virgin and unexplored segment of the market: the second car¹⁸. The progress of this segment was linked to the increased motorization among youth and, especially, among women¹⁹.

Initially, the R-5 was designed with three doors. The lack of rear doors gave security to women when carrying children to school. The third door -or trunk- was large and easy to open and lift, allowing easy loading of shopping inside. In addition, they included synthetic bumpers that respected the sensitive and harmonious forms of the car. It was a small model, compact and multipurpose, which already has competitors in the market. Mainly was the FIAT 127. But arriving the seconds allowed Renault to improve the former. While the 127 might have some mechanical superiority, when they were next to each other, the aesthetics of the R-5 was imposed clearly (Loubet, 2000, p. 175).

¹⁴ Michelin, with 9% of its capital, was the second largest shareholder in PSA.

¹⁵ The Americans, with 15.5% of the capital, became the second largest shareholder of PSA. Michelin, with 7%, went to third place.

¹⁶ In 1980, Renault's sales represented 40% of all cars sold in France (Loubet, 2001, p. 379).

¹⁷ In 1974 the R-5 accounted for 30.3% of sales of Renault in France. In 1981, it had risen to 39.8%. This meant 15.4% of the French market cars. That is why the R-5 took the nickname "the car of the crisis" (Loubet, 2000, p. 176).

¹⁸ In the early 70's, the second car was still a residual phenomenon in France, which represented only 4% of demand (Loubet, 2000, p. 175).

¹⁹ Renault got it right. In 1972, 31% of the buyers of the R-5 are women and 35% younger than 30 years (Loubet, 2000, p. 176).

The Régie decided to take advantage of this aesthetic in order to reach many more market segments. Soon, this new model generated a genuine R-5 subgame which integrated a variety of versions: L, TL, GTL, LS, TS, GTX, Automatic, Alpine and Turbo²⁰. The offer doubled in 1980 with the launch of 5-door versions from every car model. There were models for all tastes and needs. And prices responded to this strategy. Within the range R-5 was almost the same price shift that separating the R-4 from the R-20. The RNUR had introduced in Europe a new business concept: the range within the range. And it would apply to all models. Crisis served to refocus the overall design of the Renault range.

In Renault's strategy, advertising played a central role. Its communication policy was one of the factors that explain the increase in sales during the crisis. One of its architects was his young sales director, Philippe Lamirault, who took advantage of the vast commercial network of Renault to conquer new and wider segments of the market. Renault had always been capable of innovative and successful launching campaigns in very different contexts. The company could afford it because of the immense financial resources used in advertising: Renault spent on this concept up to ten times more than Peugeot (Loubet, 2000, p. 184).

The success of the R-5 allowed the former president Pierre Dreyfus leaving Renault peacefully. In December 1975 Dreyfus gave way to Bernard Vernier-Palliez. The new president's strategy was to implement a policy of diversification where car production should be compatible with other activities. Amid a global crisis, Renault was devoted to a multitude of activities: tools, engineering, robotics, bike, marine motors, and even food industry, such as freeze-dried coffee. The diversification strategy was to Renault what internationalisation strategy was to Peugeot.

Despite the success, throughout the decade, Japanese manufacturers were a real headache for both French manufacturers. Engineers of the Association Peugeot-Renault (APR)²¹ travelled to Japan in June 1973 to see the Japan factories. Engineers found in situ large differences between the Nippon and the French practice: an almost disintegrated system was offset by purchases from suppliers, which were fully mechanized, and labor costs significantly lower. However, the Japanese advantage was mainly found in its high productivity resulting from a large automation of its assembly lines. The heavy mechanisation in Japan was a result from a relative shortage of labour. Unlike France, Japan had built almost no unskilled immigration. Thus, in France, where there was an abundance of immigrant labour, a large automation would imply a strong unemployment (Loubet, 2001, 383-384). The diagnosis of the engineers of the APR was that Japan was not an example to follow, but a threat to fight. In 1977, pressure from manufacturers led the French government to restrict Japanese sales to 3% of the French market. However, the protection against the Japanese production encouraged the rest of European, and American manufacturers established in the EEC, to penetrate the French market²².

²⁰ These versions ranged from 4 to 8 hp and 845 to 1397 cm³. (Loubet, 2000, p. 176).

²¹ The APR worked very well until the absorption of Citroën left on a siding. Its story is described in Loubet, 2000, pp. 228-256.

²² Imports of cars from these two groups increased from 20% to 30% between 1968 and 1981 (Layan, 1997, p. 142).

The surplus of Renault during the seventies led the company to started again in 1978 the penetration in the U.S. market, which had been abandoned in the 60's. First of all, the company did it through an agreement with AMC in order to share commercial networks: Renault sold in the U.S. the R-5 and R-18, while AMC put their Jeeps in France. But in 1980, Renault decided to take the AMC plant in Kenosha (Wisconsin) to produce their own vehicles²³. The intention was to produce, from 1982, versions of R-19 and R-11. In total, it was meant to do a rate of 150,000 units for 1983. Soon Renault had to become the fourth largest producer of the USA. However, this strategy involved a continuous course of financial resources from France to the USA. And as a result of that, Renault and Peugeot would end up suffering a financial squeeze.

The eighties meant for Renault and PSA the worst years in their history. Peugeot, after observing its commitment to the diesel engine was supported by the market, opted for a policy of overseas expansion in order to achieve sufficient global dimension. The reality is that PSA could not afford three car divisions in a market downturn. The problem of the company was to organise their factories looking for a volume of productivity instead of flexibility. Renault suffered the same crisis. After the success of the subgama R-5, the American adventure of the company earned it a lot of financial problems. Since the first third of the eighties Renault is in bankruptcy. The company holds only because the state subsidies.

This whole situation forced the restructuring of both companies during the eighties. They were resized in order to increase productivity and the companies achieved this objective through layoffs. These new policies were carried out by the new presidents-general managers of both companies: Raymond Levy (Renault) and Jacques Calvet (PSA). Both also came to another one conclusion: the need to rationalise the strategy of internationalisation. At that time, the Spanish subsidiaries of the companies are now fully integrated into French synergies.

5. The Spanish economy and the crisis of the seventies

The Spanish economy suffered more deeply than the EEC countries the effects of oil crisis. The country had a weaker energy base, a weak industrial structure and a greater weight of the sectors most affected. In addition, the rigid policy from Franco dictatorship and the new political reforms that tried to be less strict affected to the economy as well (Rojo, 1994, p. 193). At the structural level, the Spanish economy had several faults, among them a greater relative weight in relation to EEC industrial sectors with weaker demand; an overexpansion of capital-intensive activities because of negative interest rates; an extremely high technological dependence arising from underinvestment in human resources; and levels of tax incomes from GDP below to the Western European countries (Catalan, 1999, pp. 334-342).

Since the implementation of the Stabilization Plan of 1959 and until 1973, the Spanish economy had experienced extremely high growth rates (8% annual average), which had allowed a strong real convergence of GDP per capita with EEC (Carreras & Tafunell, 2007, p. 368). These growth rates decreased significantly from 1974.

²³ Renault seek its own American adventure stimulated by the depreciation of the dollar. This situation difficult the exports to the U.S. market (Loubet, 2000, pp. 226-227).

Between 1975 and 1978, the growth rate did not exceed the 5%, but none of the years between 1979 and 1985 exceeded the 2%, and in 1981, the growth rate was negative. While the decline in 1974 was linked to the first oil crisis, the decline started in 1979 was linked to the second shock. As expected, increases in oil prices moved to other goods, services and factors, initiating a strong inflationary spiral²⁴. Furthermore, these increases entailed a large differential in relation to countries of the OECD. A first result was a sharp decline of the employed population and the appearance of a high rate of unemployment²⁵. At the enterprise level, an obvious consequence was a sharp decline in investment²⁶.

Economic instability was linked with a strong political instability. In December 1973, shortly after the first rise in oil prices, the Basque organisation ETA killed Admiral Carrero Blanco, the Prime Minister and successor of Franco *in pectore*. Two years later (November 1975), the dictator died and began a complicated process of political reform. In 1977, the first legislative elections of the restoration of the monarchy took place. And in December 1978 a new Spanish constitution was approved. From the April 1979 elections came a weak government led by the center-right party UCD. The instability would grow till culminating in the attempted *coup d'etat* of February 23, 1981. Stability can not be found until the Socialist Party, led by Felipe Gonzalez, was elected in 1982.

This instability explains why the Spanish authorities reacted too slow and insufficiently to the explosion of oil prices in 1973. The attitude of the Government was motivated by its lack of social legitimacy. And when realising that trade unions did not agree to carry on their backs those adjustments, the authorities opted for a heavy debt as a mechanism to mask the effects of the crisis²⁷. This also explains the policy of compensation applied to the crude, whose objective was to avoid a drastic domestic adjustment. Rather than withstanding rising prices on the consumer, the Government took the increases by reducing the tax on gasoline, reducing almost completely debt collection and worsening public finances. The result was that between 1973 and 1980 oil consumption increased. Unlike what happened in the OECD, Spain took no industrial restructuring in order to reduce energy costs. When this policy was rectified in 1978 it was late and the effects of the second impact were much more dramatic, forcing the industry to a much harder conversion.

After more than years of great growth and wage restraint, between the death of the dictator and the consolidation of the called “Moncloa Pacts” (1978)²⁸ a rise of workers' demands took place. Labour costs rose at high speed and were not related to productivity gains. The increasing of the number of wages was added to the constant increase in Social Security contributions. At the same time, the number of hours

²⁴ Between 1974 and 1985 average annual inflation was 15.7%, reaching 24.7% in 1977 (Carreras and Tafunell, 2007, p. 367).

²⁵ The employed population decreased from 13 million people in 1973 to 10.5 in 1985. At the same period, the unemployment rate increased from 2.2% to 21.9% (Carreras and Tafunell, 2007, p. 367).

²⁶ Between 1973 and 1985, in a total of eight years, the investment had a negative growth (Carreras and Tafunell, 2007, p. 367).

²⁷ The Franco regime sought to compensate the lack of freedom of association with a highly protection of jobs. In 1973, amid growing workers' demands, the authorities established the growth of wages according to past inflation, provoking the wage-price spiral (Carreras and Tafunell, 2007, p. 393).

²⁸ The “Moncloa Pacts” were a group of agreements between the government and main political parties and trade unions aimed at promoting wage moderation in return for political and economic reforms. A thorough study on the effects of the Moncloa Pacts in Trullen (1993).

worked were reduced. And all of these in a context of falling corporate profits. Until 1977, companies were able to handle the situation by relying on debt, encouraged by a negative real interest rates resulting from high inflation and a financial regulation that dilated the change of those rates. Once liberalised the financial sector in 1978 and liquidated the expansionary monetary policy, interest rates soared. This was dramatic for the industrial crisis, because of the highly leveraged business²⁹.

6. Spanish automotive industry in the seventies: the effects of the decrees Ford

As seen, the onset of the energy crisis led to an intensification of international competition in the automotive sector. In order to face this threat, concentrated movements, both nationally and internationally, gaining momentum, especially in Europe. In this context, the aim of Spanish businesses became to be articulated in the European automotive system, through integration into the parent company concerned. When in the late 60's, the impossibility of developing a production line based on domestic factors of technical and organisational capacity was confirmed, prospects for the future development of the sector lied in the ability to attract foreign initiatives.

As a result, the Spanish industrial policy towards the sector shifted its strategy, just when the Ford decrees were enactment in late 1972. The first one (November 30) lowered from 90 to 50% the minimum requirement of nationalisation for every new manufacturer; set a threshold of 10 billion pesetas for investment for the manufacture; forced to export two thirds of the production; and limited domestic market sales by 10% from a year earlier. These conditions are perfectly in line with the strategy of Ford in Europe. In return, the requirements for exporting were reduced to local manufacturers. The second decree (December 23) declared the automotive industry a preferred sector of interest by extending the incentives for expropriation of land and the tax exemption for the companies which were able to achieve in 1976 the following objectives: a production of 500 units per day; an investment in fixed assets over 7,000 million pesetas; and a minimum export of 20%.

At the end of the year (December 30), Ford submitted an application to build a factory plant in Valencia, an investment of \$ 310 million. The American project was oriented towards the European market, taking advantage of tariff reduction with the EEC Preferential Agreement signed in 1970. With this operation, Ford recovered his old purpose of making Spain a platform for export vehicles³⁰. Ford began production in Spain in 1976. Two years later, their production already exceeded 250 thousand units. The model chosen by the Americans was the Fiesta, a small vehicle that competed directly with SEAT and FASA's flagship products (the 127 and the R-5).

This policy was reaffirmed in 1979 with the enactment of the Opel decree by April. This decree, set to the intentions of GM, declared a requirement of a 55%, a

²⁹ Jobs in industry fell from 3.6 to 2.6 million (-28%) (Carreras and Tafunell, 2007, p. 386).

³⁰ The assembly of cars in the Iberian Peninsula by Ford began in 1920 with the opening of a plant in Cadiz, which closed in 1921. In March 1923, Ford opened a new plant in Barcelona. In 1929 Ford sold 40% of capital to shareholders native and became Ford Motor Iberica. The War of 1936-39 thwarted expansion plans and until 1953 was devoted to the truck assembly. 1953 Ford sold its entire holding to local shareholders, becoming Motor Ibérica, which dissociated itself completely from Ford in 1963 (Perez, 2003, pp. 130-131).

minimum production of 600 vehicles per day and an export tax of 65%. In return, the minimum local content required decreased from 90% to 60% to old manufacturers. In late 1979, Opel obtained permission to settle at Figueruelas (Zaragoza). The German company began production in 1982, and a year later reached the 250 thousand units. Like Ford, the company decided to produce a cheap vehicle medium-low segment: the Opel Corsa. Despite the approval to the two American giant industries, part of the strategic direction remained. Thus, restrictions on vehicle imports continued during this period. However, by opening the market to large American transnationals, the industrial policy implemented in 1972 and 1979, focused on encouraging the development of national builders and component manufacturers, was being abandoned (Catalan, 2000, 141 .)

During the crisis of the 70's fell the domestic demand. The car companies already installed enter in a crisis of production excess and technological backwardness, which will be aggravated by the establishment of Ford. With the entry of Ford, and with the intention to maintain and expand market share, they reacted by extending their ranges with the intention of offering a specific product for each segment of the market.

This strategy prevented the investment to be reoriented for improving the production lines and reduced reducing the number of car models in order to achieve economies of scale and improved cost structure. In 1973, SEAT decided to create new factory plants in Martorell (Barcelona) and Zaragoza, but two years later left the project of Zaragoza to acquire the AUTHI factory in Landaben (Navarra)³¹. For its part, Citroën decided to set up a factory of gearboxes and motors in Ourense. And, as discussed in the next section, Renault decided to create a new assembly factory in Palencia.

	$\leq 1.100 \text{ cm}^3$	$1.100 - 1.600 \text{ cm}^3$	$\geq 1.600 \text{ cm}^3$	Total
1970	27	20	4	51
1971	28	21	2	51
1972	30	19	3	52
1973	31	21	4	56
1974	29	28	5	62
1975	41	32	7	80
1976	37	33	7	77
1977	27	41	9	77

Also, to address the commitment to export 20% of production, the subsidiaries intensified their integration into the global strategies of the parent companies. As a result of that operation, Spain stepped up production of technologically backward models targeting the EU market. The Spanish subsidiaries completed the ranges offered by the parent companies and help them to save the costs of manufacturing these non-competitive models on short runs. In that way, we have to remark the cases of the Citroën 2CV and Simca 1000, and 600 and 850

³¹ Despite the financial efforts –specially in times of crisis and reduced sales-, SEAT acquired Landaben with the Spanish government's commitment to veto the entry of GM. However, this engagement was broken four years later (Catalan, 2007).

models of SEAT. However, this is not the case of the 127 or the R-5, because those two models were competitive ones integrated in the strategies of the companies at European level. In 1976, the Ford Fiesta will appeared in the market and will defeat 127 in the market, but it won't the R-5.

	1972	1973	1974	1975	1976
Seat					
1.500	0,7	---	---	---	---
600	37,5	46,5	---	---	---
850	20,2	25,6	30,5	---	---
124	7,5	10,1	6,5	11,1	16,5
1.430	6,7	7,5	4,5	---	---
127	1,8	27,9	20,4	21,3	32,3
133	---	---	15,5	32,5	36,3
132	---	0,5	2,9	4,6	5,4
131	---	---	---	1,6	2,0
FASA-Renault					
R-4	20,8	22,6	20,0	12,5	4,0
R-8	11,6	23,8	12,6	15,2	---
R-6	1,0	1,9	1,1	0,5	0,2
R-12	7,9	20,5	15,6	13,2	12,3
R-5	1,2	8,4	22,9	41,5	40,5
R-7	---	---	---	1,3	1,4
Citroën					
2 CV	41,3	40,5	56,6	55,8	60,7
Dyane	0,1	0,1	0,6	0,6	2,0
C-8	0,2	35,8	22,0	0,2	0,8
GS	---	3,0	,8	25,3	34,2
CX	---	---	---	---	0,0
Chrysler					
Simca 1.000	52,6	60,2	45,5	57,5	45,4
Simca 1.200	0,4	0,5	0,2	0,0	0,0
Dodge	0,8	8,7	0,5	10,0	---
Chrysler	---	---	---	0,3	41,1

Exports were the outlet for the shrinking domestic market. Between 1975 and 1980, the share of exports (in units exported over units sold) increased from 22% to 46%. The preferential agreement with the EEC in 1970 established the legal framework that would allow the Spanish automotive industry to achieve significant rates of export. The accord involved a significant reduction in the protective duty entry of Spanish products in the EEC. Unlike what was thought during the sixties, the real Spanish market outside the car was found in Europe (90% of total), and not in Latin America. Within Europe, sales were concentrated in the countries of the EEC, which in 1979 absorbed 87% of exports to Europe. In this direction, the integration of Spanish subsidiaries in the dynamics of their parent companies has been essential, because most of these exports have gone to France and Italy, the national markets for their headquarters.

In 1979 the industrial situation was worrying. The differential between production and registrations was not compensated by exports and the stocks soared. At that point all companies, except Ford and to a lesser extent FASA-Renault, will go into a state of crisis. The endemic problems of companies already established - technological backwardness and excess of production and a distribution based in a diversification of the ranges but with not enough runs, a system that do not allow to exploit economies of scale-, will manifest dramatically in October 1976, when Ford began its production. Ford's strategy was the opposite of those applied by companies already established: produced a single model, fully integrated into the strategy of Ford Europe, making it possible to exploit economies of scale, and avoid duplication of work to make each component in one (at most two) of the three plants that produced the Fiesta: (Dagenham (GB), Saarlouis (Germany) and Valencia).

TABLE 3
Cars Production and cars Registered in Spain

	Production	Annual Growth Rate	Registered*	Annual Growth Rate
1970	479.347		410.911	
1971	480.013	0,1	440.224	7,1
1972	632.585	31,8	510.979	16,1
1973	746.205	18,0	597.770	17,0
1974	746.782	0,1	584.234	-2,3
1975	730.840	-2,1	581.483	-0,5
1976	791.388	8,3	623.991	7,3
1977	1.042.336	31,7	664.906	6,6
1978	1.055.667	1,3	657.142	-1,2
1979	1.040.234	-1,5	623.325	-5,1
1980	1.104.293	6,2	581.617	-6,7

* Total Registered in Peninsula and Balears (including imports)

Ford's entry intensified competition within the domestic market and served to test the efficiency of Spanish producers. But finally, it was SEAT that ended up paying the entry of the Americans. The old national company saw its market share reduced from 55% in 1970 to 26% in 1980. The 127, worse than the R-5, also succumbed to the Fiesta. Due to the downturn in enrolment in 1974 and 1975, SEAT requested a record of crisis (reduction of 31 days' journey from January to April 1975) which was accepted by the Administration (Catalan, 2007, pp. 150-156). In 1978, under the new agreements between the INI, SEAT and FIAT, the company initiated a plan to restructure and condense the whole production to be applied in five years. A central plank of it was an employment regulation, accepted by the Directorate General of Labour. SEAT's example was followed by other companies, either in the form of employment regulation or under technical stoppages (the company assuming all the salaries). However, the committees were not agree with these measures. In the middle of a context of political destabilisation, the committees launched major strikes that profoundly affected the industry.

	SEAT	Renault	Citroën	Chrysler	AUTHI	Ford
1970	55,2	21,3	6,2	---	---	---
1971	54,0	22,5	6,3	6,7	11,6	---
1972	52,9	23,9	5,5	8,1	14,1	---
1973	51,0	24,1	6,0	9,7	11,2	---
1974	50,0	26,1	7,9	9,1	5,7	---
1975	47,2	26,9	9,5	11,4	2,5	---
1976	48,2	25,4	10,2	11,4	---	1,4
1977	38,5	27,1	11,5	10,9	---	8,9
1978	35,6	27,7	12,1	11,7	---	10,0
1979	30,5	29,8	12,6	12,0	---	10,7
1980	26,0	35,0	9,6	9,6	---	10,2

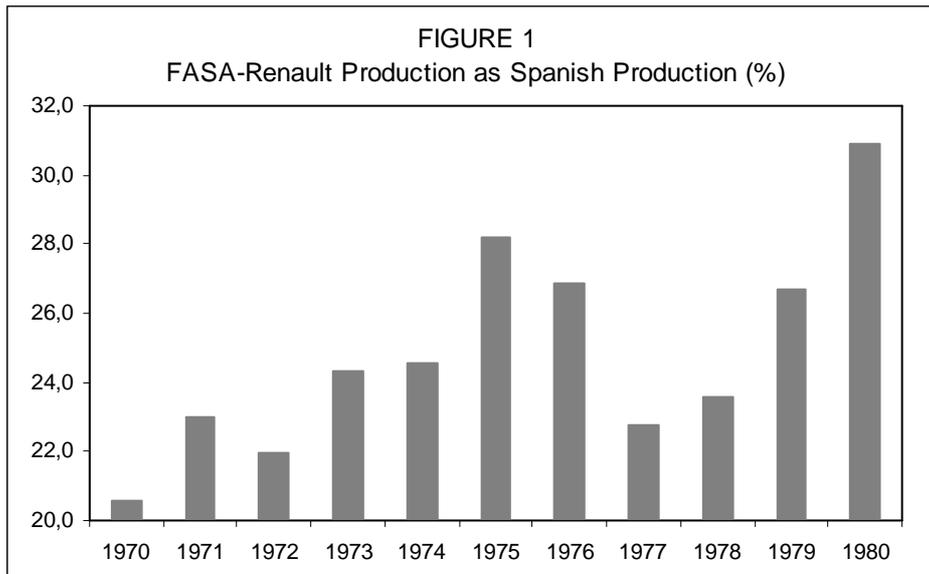
7. FASA-Renault, the ascension to leadership during the crisis

This section will be written. Now I just offer a few graphs and tables about FASA-Renault's growth.

	Spain	Annual Growth	FASA-Renault	Annual Growth	FASA-Renault production by day*
1970	479.347	20,6	98.720	16,3	380
1971	480.013	0,1	110.328	11,8	430
1972	632.585	31,8	138.748	25,8	572
1973	746.205	18,0	181.676	30,9	714
1974	746.782	0,1	183.458	1,0	760
1975	730.840	-2,1	205.934	12,3	910
1976	791.388	8,3	212.691	3,3	919
1977	1.042.336	31,7	237.502	11,7	928
1978	1.055.667	1,3	248.797	4,8	1.033
1979	1.040.234	-1,5	277.447	11,5	1.196
1980	1.104.293	6,2	341.211	23,0	1.292

* At December 31

SOURCE: FASA-Renault, Annual Report, 1970-80

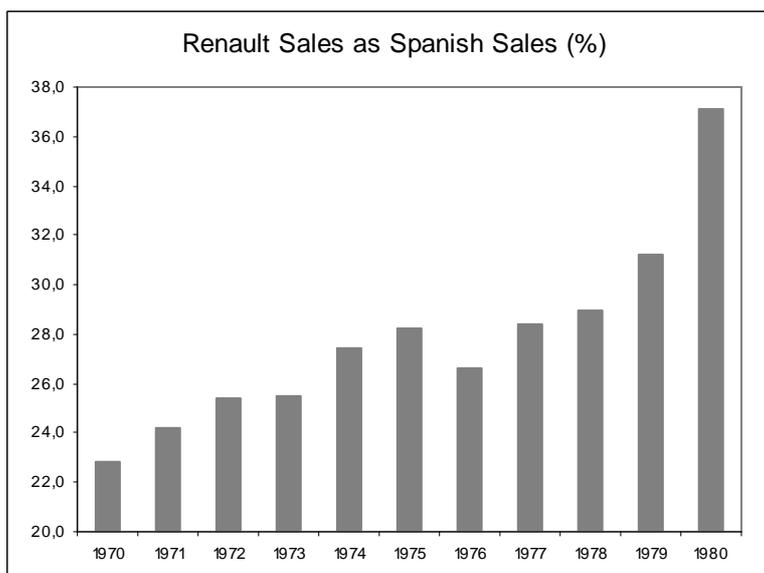


Cars Registered* in Spain and Sales of FASA-Renault**				
	Cars Registered (1)	FASA-Renault Sales (2)	Growth (1)	Growth (2)
1970	410.911	93.854	4,9	16,6
1971	440.224	112.096	7,1	19,4
1972	510.979	141.832	16,1	26,5
1973	597.770	178.869	17,0	26,1
1974	584.234	187.663	-2,3	4,9
1975	581.483	202.289	-0,5	7,8
1976	623.991	208.123	7,3	2,9
1977	664.906	243.855	6,6	17,2
1978	657.142	250.058	-1,2	2,5
1979	623.325	274.099	-5,1	9,6
1980	581.617	332.873	-6,7	21,4

* Registered in Peninsula and Baleares (including imports).

** Including exports.

SOURCE: FASA-Renault, Annual Reports, 1970-80.



FASA-Renault: Total Production by Model (%)								
	R-4	R-8	R-6	R-12	R-5	R-Siete	R-18	R-14
1970	30,7	35,3	19,5	14,5				
1971	27,7	35,3	20,4	16,5				
1972	22,0	26,3	21,7	27,0	2,9			
1973	16,8	17,3	15,7	28,3	21,9			
1974	16,4	13,8	16,4	24,8	28,1	0,6		
1975	14,1	6,6	13,6	22,2	30,6	12,9		
1976	11,2	1,6	11,7	20,9	41,4	13,2		
1977	12,1		11,1	22,8	41,2	12,8		
1978	15,0		10,0	20,9	40,2	11,0	2,9	
1979	15,3		7,3	11,6	35,2	8,3	21,5	0,8
1980	13,3		6,4	9,6	42,8	4,2	14,2	9,5

SOURCE: FASA-Renault, Annual Reports, 1970-80.

FASA-Renault: Export Destination (%)			
	France	CKD*	Spain**
1970			
1971			
1972	84,9		15,1
1973	85,8		14,2
1974	91,7		8,3
1975	72,0	23,2	4,8
1976	78,5	16,8	4,7
1977	84,2	10,3	5,5
1978	81,0	12,0	6,6
1979	75,5	16,7	5,4
1980	73,9	21,4	1,9

* Set to Join (Completely Knocked Down). They were intended to Portugal and Colombia

** Includes Canarias, Ceuta, Melilla and tourist registration

SOURCE: FASA-Renault, Annual Reports, 1970-80.

	Export Value / Turnover (1)	Units Exported / Production (2)	(1) / (2)
1971	4,6	5,1	0,9
1972	8,0	7,5	1,1
1973	12,6	10,5	1,2
1974	12,9	11,4	1,1
1975	18,2	18,6	1,0
1976	22,9	20,0	1,1
1977	20,9	21,1	1,0
1978	22,8	23,1	1,0
1979	24,3	27,7	0,9
1980	33,9	36,2	0,9

SOURCE: FASA-Renault, Annual Reports, 1970-80.

FASA-Renault: permanent capital (million pesetas)				
	Equity (E)	Long-term liabilities (LTL)	E plus LTL	Profits
1970	2.900	634	3.534	489
1971	3.303	1.269	4.572	530
1972	3.874	2.156	6.030	595
1973	4.056	2.646	6.702	630
1974	7.764	4.261	12.025	-127
1975	7.238	4.133	11.371	-331
1976	7.111	4.651	11.762	-694
1977	9.663	7.623	17.286	1.660
1978	10.247	10.117	20.364	1.229
1979	24.935	10.986	35.921	2.989
1980	37.140	10.171	47.311	4.370

SOURCE: FASA-Renault, Annual Reports, 1970-80.

FASA-Renault Staff (F-R), Staff of its Subsidiaries (S) and Sales Network (SN)					
	F-R	S	F-R + S	SN	F-R + S + SN
1970	8.717	1.650	10.367	6.627	16.994
1971	10.147	1.733	11.880	7.594	19.474
1972	12.503	1.689	14.192	7.961	22.153
1973	15.463	1.915	17.378	8.723	26.101
1974	16.357	2.009	18.366	9.513	27.879
1975	17.942	2.081	20.023	10.442	30.465
1976	19.524	2.023	21.547	11.718	33.265
1977	20.552	1.981	22.533	11.296	33.829
1978	21.920	1.983	23.903	13.329	37.232
1979	22.396	1.970	24.366	13.457	37.823
1980	22.027	1.990	24.017	14.289	38.306

SOURCE: FASA-Renault, Annual Reports, 1970-80.

Price Trends in Spain and FASA-Renault cars* (1970=100)		
	Spain	Renault cars
1970	100	100
1971	109	105
1972	118	105
1973	131	109
1974	151	122
1975	176	139
1976	207	157

* All models had the same increase.

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