



RENAULT

Official name: Renault S.A.

Owned by: French government (19.73%), Nissan Finance (15%)
Daimler AG (3.1%) plus public shareholding.

Owns: • AutoVAZ (25%) • Dacia (99%) • Nissan (44.3%) •
Renault Samsung Motors (80.1%) • Volvo (21.8%).

Current situation: After being mostly privatised by the French government in 1996, Renault took over Nissan, and the two companies together comprise the world's fourth largest car manufacturing group. While Renault sales were excellent in Europe and Russia, sales in India dropped by nearly one-third. Sales in China fell 16.8% while sales in South Korean fell more than a quarter. Russia's partially Renault-owned AvtoVAZ has lost billions for most of its life and is barely profitable now.

Vehicles produced by Renault tend to be truly dreadful: Renault lives at the wrong end of most reliability surveys.

Chances of survival: uncertain.

Renault will survive in some form, because the French government wouldn't dare let it go bankrupt. However, the French government has no loyalty to Nissan and in the longer term Nissan and Renault could part company again •



A brief history of Renault



LOUIS RENAULT built his first car in 1898. He founded a company with his brothers Marcel and Fernand in 1907 they sold 3000 cars – a massive number in those days.

Fernand Renault died in 1908 but the company's prosperity continued: in 1913 the surviving Renault brothers manufactured and sold 10,000 cars – 20% of all French private car production.



However, there were storm clouds over the horizon. The safe, predictable world of the nineteenth century was about to be destroyed in the carnage of World War I.



As war came, Renault switched to military production. The highly successful Renault *FT* tank is claimed to be the forerunner of every modern tank.



After World War I, the French economy was in tatters. The only cars people could afford were cheap and basic. Renault's attempts to establish itself as a builder of luxury automobiles came to nothing: many grand designs were quietly abandoned.



The **Renault Reinastella**, built between 1929 and 1933 and doomed to failure by the Great Depression of the 1930s. Renault survived (just) by switching back to budget models.



Louis Renault's factories produced war materials for the Germans during World War II, and in 1944 Louis was arrested for collaborating with the Nazis. He died in prison in mysterious circumstances (his neck was broken) while awaiting trial.

The Renault company was nationalised, and under government ownership it flourished; post-war Europe was desperately short of affordable, fuel-economic cars, and Renault made exactly what the market needed.

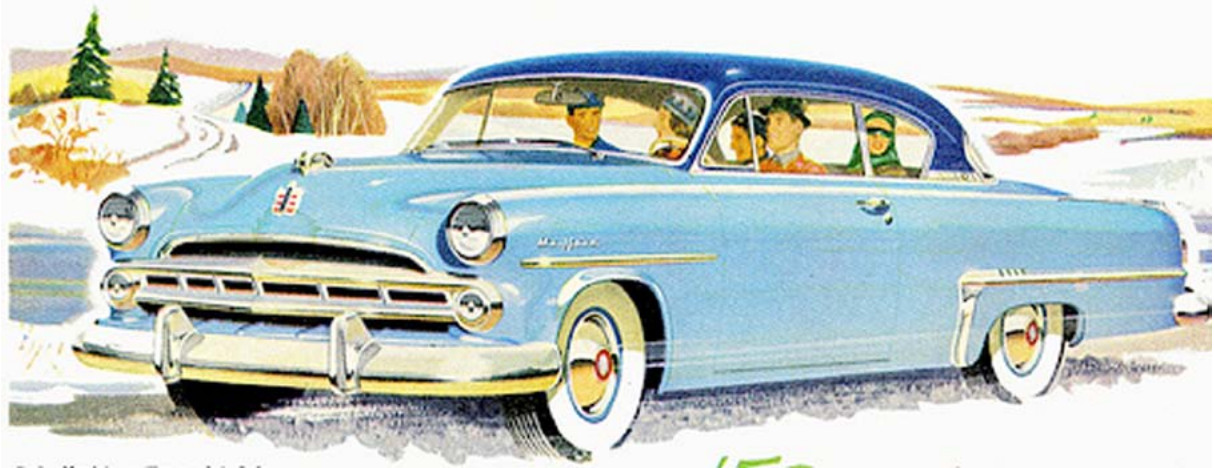


The **Renault 4CV**, France's answer to the Volkswagen Beetle. A big hit in France and her former colonies, the 4CV became the first French car to sell over a million units.

The French tax system was changed to heavily penalise large cars, so the French manufacturers, including Renault, simply stopped building them.



Renault began exporting and setting up factories all over the world. However, Renault had a hard time in countries like Australia and America.



America and Australia had vast open spaces and cheap fuel; the cars that sold well in these countries tended to be large, powerful and could travel long distances at speed.



Like the British cars of the era, French models were built for fuel economy and bred for country lanes and small inner-city streets. They were cramped, laughably underpowered and simply overheated at highway speeds.





The rear-engine **Renault Dauphine**, nicknamed *The Widowmaker*, due to its habit of flying out of control on corners, often killing the occupants in the process. The styling was strange and the performance laughable, but Renault sold two million Dauphines, even, briefly, to Americans. Most Dauphines that didn't crash, quietly rusted away within a few years.

By the 1960s, Renault was still selling large numbers of cars, but it was a company with a strategy that hadn't changed with the times.

After World War II, all the participating governments knew that the millions of returning soldiers needed jobs, or economic and social chaos was certain.

Also, Europe was a mess. Therefore, each government's top priority was to employ returning soldiers, get the mess cleaned up and create long term economic growth.

Therefore, 100% employment, with support for vital industries such as the car industry, was viewed as an economic necessity.



For fifteen years after the end of World War II, cars were in deperately short supply in Europe, so it was hard to even meet the demand. This meant that, within reason, every car company could rely on instant customers.



However, as the wreckage of war was transformed into a smooth-running modern economy, the car industry lagged behind. The politicians enjoyed economic and social stability. The car company managers enjoyed a good life. French workers, for the first time in living memory, had stable jobs and a living wage; a far cry from the wretched poverty of the Great Depression.





The **Renault 4**, also known as the *Quatreille*, was one of the most successful cars of all time. Produced between 1961 and 1992, eight million were sold in 27 countries.

Like the English Morris Minor, the rise and fall of the Renault 4 paralleled the rise and fall of the local car industry: when the 4 was released, it was technologically advanced. By the time production stopped, the 4 was an automotive dinosaur.

Soon companies like Renault stopped innovating and instead concentrated on increasing production all over the world.

Soon there were more cars than customers, and they often weren't very good cars. In the beginning this lack of quality didn't matter: the world was thirsty for cars, fuel was cheap and the French could rely on sales from its former colonies.



By 1975, Renault was a global company. Its plants made 1.3 million passenger cars, including over 400,000 in Spain, Belgium and Romania and 130,000 in Turkey, Australia, South Africa, Argentina, Colombia and Iran. In addition, Renault also made 99,000 industrial vehicles, 60,000 Saviem-Berliet trucks, 14,000 tractors and 112,500 special vehicles.



The **Renault 5**, also sold outside France as *Le Car*. An amazing 5.5 million were sold between 1972 and 1985, but this was as much good luck as good management: the 1973 oil crisis created a sudden demand for cheap, fuel-efficient cars. The 5's hip looks, cheap price and reasonable handling ensured a ready market, except in the USA (the earlier Renault Dauphine had earned such a poor reputation that the 5 simply wasn't taken seriously).

Like most small Euroboxes of the era, the 5 was built from paper-thin steel and rusted to nothing in the space of a few years.



Then the 1970s oil crises hit. In 1973, the US helped Israel win a war against its Arab neighbours. For the Arab oil producers, who were already angry at being underpaid by the world for decades, this was a step too far.

In retaliation against the USA, Saudi Arabia, Iran, Iraq, Abu Dhabi, Kuwait and Qatar raised their prices and cut oil production.

This triggered a four-fold increase in the price of petrol, massive profits for the oil companies and a global financial crisis. The US stockmarket crashed and by 1975 car sales had plunged.

Sales in Europe dropped by 40%.

At the very time the crisis hit, Renault was at the peak of its expansion. Renault began haemorrhaging money.

Renault began selling off its overseas assets, but it also had to deal with the situation at home.

Suddenly, the ageing Renault factories had far too many workers, few customers and an increasing burden of debt.

Another oil crisis hit in 1979, sending a second panic around the world.





It was convenient for the French establishment to blame the problems at Renault on trade unions and lazy workers. From an accountant's point of view, the solution was simple: close the uneconomic factories and fire the employees.

From a political and social point of view, it wasn't that simple; entire communities in France relied on Renault factories for their economic existence.

The French government dithered. The whole of Europe was in turmoil, a situation exploited by Russia, which funded extreme left-wing groups within Europe.





The French trade unions were quick to point out that they didn't create either the oil crisis nor Renault's disastrous globalisation strategy. The French unions refused to allow their members to carry the can for the series of economic and political blunders that led to Renault's current crisis.

This stand-off continued right into the 1980s.

Finally, in 1985, the French government appointed Georges Besse – a top executive with a ruthless streak – as the head of Renault.

Besse began selling off many remaining Renault assets and fired 21,000 workers.



To Besse, the mass firings at Renault were simply economic weight-loss surgery. But the effect was a minor economic tsunami that rolled across France.



The *Île Seguin* (Seguin Island) Renault factory on the Seine river. Earmarked for closure since the 1980s, the factory finally ceased production in 1992 and was demolished in 2005.

In the end most of the French Renault factories stayed open, but the workers were still fired. The streets filled with demonstrators and things quickly got ugly. Renault boss Georges Besse was gunned down outside his home in Paris.





Renault boss, Georges Besse, shot dead outside his home in Paris.

Besse's assassination was blamed on a militant left-wing group, *Action Direct*, although there are suspicions the Iranian government was involved (Besse formerly headed the Eurodif nuclear company, which had reneged on a contract to help Iran's nuclear programme). Two French women and two accomplices were given life sentences for the murder, which they denied having committed.



Economically, things improved at Renault. The high oil prices that had crippled the world's economy dropped again in the early 1980s. As the world's economy improved, the stripped-down Renault began to make money.



But the new Renault cared even less about quality than the old. Its factories now produced mainly small, stylish and unbelievably crappy models. These shiny new Renaults never lasted very long but they kept the local garage very happy.

Renault profits went back up, and the French government unloaded most of its shares in 1996.





Renaults were among the least reliable cars in the Western World at the end of the last century, so many Nissan customers watched in horror as Renault bought a controlling interest in the struggling Nissan corporation in 1999.

True to expectations, Renault quality went up and Nissan quality went down. Modern Renaults and Nissans share many parts.



Renault now builds just 17.5% of its cars in France, preferring factories in countries such as Spain, which Renault CEO Carlos Ghosn said “serves as a model of labour flexibility for French workers”.

Turkey, with its low wages and non-existent labour laws, is another major producer of Renault vehicles.

But the grass isn't always greener on the other side of the fence. In a strange repeat of its mistakes in the 1960s and '70s, Renault recently spent billions building factories in new markets, notably Brazil and Russia.



However, the Brazilian and Russian economies tanked, and so did Renault's investments.



After six years of ghastly losses, Renault finally made a profit in 2014, led by European sales of its Romanian-built *Dacia* vehicles.

Cash-strapped Europeans were drawn to Dacia's cheap and cheerful models, all based on obsolete Renault technology, but mostly stripped of the higher tech. Thus, Dacia became a handy money-earner for the troubled Renault group.



By 2018, Renault had apparently recovered in a spectacular fashion. Record profits prompted a big jump in Renault's share prices.

However, things were not quite what they seemed. First, many of Renault's profits came from Nissan models, not Renault models, and from a one-off tax gift from the US government.





Second, while Renault sales were excellent in Europe and Russia, sales in India dropped by nearly one-third. Sales in China fell 16.8% while sales in South Korean fell more than a quarter.



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And, there are two big elephants in the room: electric cars and the global economy.



Renault continues to introduce new electric models as a way of gaining important market share in the world's electric future.

However, electric cars are one of the few areas where China has a natural advantage.

China already produces many electric car components and the government is deliberately tilting the playing field in China's favour.





At present, most Chinese electric cars are too crude to sell in the West, but China can afford to buy Western electric car companies and start mass producing these models in China. This will allow Chinese companies to dominate in the world's largest electric car market and also to give China a stepping stone into the West.

So, the Chinese electric car industry is getting a massive boost at a critical time. Renault will have a tough time selling electric cars into China, but Chinese electric cars will be directly competing with Renault, both at home and in the West.

So, the world is about to be flooded with cheap electric cars from China. The profit margins on these cars will be paper-thin and heavy global over-supply is the most likely outcome.





The second elephant in the room is the first law of economics: *what goes up, must come down*. Years of upward growth in the US and China will reverse when the economic wave reaches its peak; it's only a question of when and how.

During recessions, sales of new cars plummet. This will hurt all the carmakers, but Renault is especially vulnerable due to its over-investment in unsuccessful markets, combined with the fact that most Renault vehicles are poorly built and unreliable.

In tough times, most consumers opt for durability when choosing cars.

The Japanese carmakers such as Toyota and Honda can ride out most recessions. In addition to having stable financing, these companies have loyal customers, who have learned to trust Toyotas and Hondas.

Renault is too large to be allowed to fail, but it seems certain to face tougher times in the near future •



