

Renault and Fiat Chrysler flirt with audacious mega-merger (Update)

May 27 2019, by Joseph Schmid With Celine Cornu In Milan



Fiat Chrysler said the merger with Renault would create the world's third largest automaker

French automaker Renault said Monday that it would study "with interest" a 50-50 merger proposal from Fiat Chrysler, a deal that could reshape the industry as Renault reviews its options following the arrest in Japan of its chief executive.

Renault had for years tied its strategy to a partnership with Japanese

automaker Nissan but this has come into question after the arrest and subsequent ouster of Carlos Ghosn at both companies.

After a board meeting over what it termed a "friendly" offer, Renault said it would enter talks on a merger that would forge the world's third-largest automaker.

Investors cheered the prospect, with Renault's shares soaring 15 percent in afternoon trading in Paris, and Fiat Chrysler stock up more than 10 percent in Milan.

A deal would give Fiat access in particular to Renault's electric car technologies, allowing it to meet the strict CO2 limits being enacted by the European Commission.

Renault for its part might be able to tap the US market thanks to Fiat Chrysler's extensive operations in North America.

"Given the investments and the technological advances that are going to be necessary, there's isn't really a choice, you have to reach a critical mass," said Flavien Neuvy of the Cetelem Observatory research group.

The idea has the backing of the French government, which owns a 15 percent stake in Renault, after Fiat said the merger would not result in the closure of any production sites.

"The government is in favour... but the terms of this merger must be supportive of Renault's economic development, and obviously of Renault's employees," government spokeswoman Sibeth Ndiaye said Monday.



Carlos Ghosn's arrest in Japan threw the Renault-Nissan alliance into disarray

Italy's outspoken deputy premier Matteo Salvini also gave a thumbs up to what he called a "brilliant deal".

But labour unions were wary, with the CGT urging the French state to maintain a blocking minority after any deal.

'Pre-eminent global group'

Renault was plunged into disarray last November with the arrest in Tokyo of Ghosn, who was also chairman of its Japanese partner Nissan.

That alliance, which also includes Mitsubishi, sells around 10.8 million automobiles per year in total, compared with Germany's Volkswagen and Japan's Toyota, both with around 10.6 million.

But its future is in doubt following Ghosn's ouster at both Renault and Nissan, with Tokyo in particular bristling over a push by the French side for deeper integration.

Renault holds 43 percent in Nissan, which in turn owns 15 percent of its French partner. Despite pledges on both sides to pursue the alliance, analysts say the tensions might be pushing Renault to explore alternatives.

Fiat Chrysler said its proposal for Renault would create "a pre-eminent global automotive group" with annual sales of 8.7 million vehicles.

The brand portfolio of the two groups would be "broad and complementary... and would provide full market coverage, from luxury to mainstream", it said.



Fiat Chrysler is big in the US, where Renault has made few inroads

There was no mention of Nissan, which is battling falling sales and the reputational damage from the downfall of Ghosn, who is fighting financial misconduct charges.

Nissan CEO Hiroto Saikawa told reporters Monday that he was "open to constructive discussions to strengthen the alliance," and the subject will surely be raised in a meeting on Wednesday with Renault's board chairman Jean-Dominique Senard.

Costly shift

Fiat Chrysler has been under pressure in Europe, stoking speculation it was looking for a partner as the highly competitive industry is pushed to consolidate in the face of declining demand and the costly switch to electric cars.

The company is widely seen as a latecomer to the electric vehicle market, but does well in the US SUV and pick-up sectors.

Renault, by contrast, was an early convert to electric cars and has made strong inroads in the market with its popular Zoe hatchback, though it has not yet tried to tackle the North American market.

Fiat Chrysler said the merger would put the group in "a strong position in transforming technologies, including electrification and autonomous driving".

Early this year, rumours circulated that Renault was interested in Fiat-Chrysler after its hopes for a full merger with Nissan or even French competitor PSA were dashed.

Fiat Chrysler predicted that the merger would generate more than five billion euros (\$5.6 billion) of cost-savings and other synergies, on top of the benefits from the Renault-Nissan-Mitsubishi alliance.

All counted, including Nissan and Mitsubishi, a combination with Fiat Chrysler would mean the production of close to 16 million vehicles, besting Volkswagen and Toyota.

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