

Renault-Fiat merger a tempting match as challenges mount: experts

27 May 2019, by Daniel Aronsson



A Renault-Fiat Chrysler merger would offer huge economies of scale as the companies grapple with the shift to electric vehicles

The prospect of a merger between French carmaker Renault and Italian-US auto giant Fiat Chrysler received a warm welcome on Monday, with analysts hailing the idea as an ideal fit for two companies who must keep up in the highly competitive industry.

The 50-50 combination offered by Fiat, which sells 4.8 million vehicles a year, would create the world's third-biggest automaker by adding Renault's sales of 3.8 million.

And with the sales by Renault's Japanese partners Nissan (5.6 million) and Mitsubishi (1.2 million), the group would become a globe-spanning powerhouse selling nearly 16 million cars a year—or one out of six sold worldwide.

That would offer huge economies of scale as the companies grapple with the shift to electric and [hybrid vehicles](#) amid a crackdown on [carbon emissions](#) in their core European markets.

"Obviously the race for size is one of the essential features of this merger project," a source close to the talks told AFP.

The industry is spending billions to develop [new technologies](#), but analysts expect further efforts will be needed as more governments pledge to tackle pollution.

"Carmakers have invested 25 billion euros (\$28 billion) on electrifying their fleets over the past eight years, and it's going to be 10 times that amount, 250 billion euros, over the next eight years," said Laurent Petizon, an analyst at Alix Partners.

That compares with Renault's sales of 57.4 billion euros last year, and Fiat's revenue of 110 billion euros.



Fiat generates roughly half of its sales in North America, and has benefited from Chrysler's expertise in trucks and SUVs with the Dodge, Ram and Jeep brands

Little overlap

But Fiat Chrysler has lagged far behind on e-vehicles and is facing heavy fines from the European Commission if it cannot reduce its cars' emissions in line with tougher standards being imposed on the continent.

"Fiat hasn't invested anything in this sector," said Ferdinand Dudenhoeffer, director of the Centre for Automotive Research based in Germany.

Experts say that Renault and Fiat Chrysler would complement each other if they went through with a proposer merger

In a tacit admission of the problem, Fiat announced last month a deal with US-based Tesla to buy carbon dioxide credits, allowing it to escape the EU fines.

But Renault offers Fiat the chance to expand into Russia, where it now generates around a fifth of its sales.

Renault by contrast has long been a leader in electric cars, with its Zoe hatchback one of the industry's best sellers.

Global reach

And this year Renault introduced a hybrid version of its popular Clio sedans.

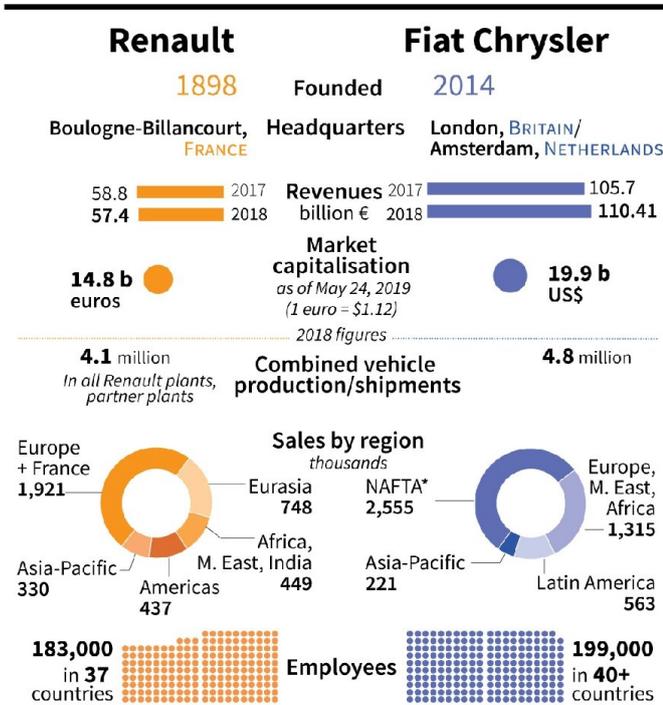
Renault's long partnership with Japan's Nissan and Mitsubishi would also help cut Fiat's reliance on Europe, where its overall market share has fallen to just 4.6 percent as of last year, from six percent in 2010.

Yet Renault has long been absent from the North American market, the world's second largest after China, where Fiat has built up a strong position since the purchase of Chrysler.

Together, Renault and Fiat Chrysler would be the second-biggest player in the Europe, Middle East and Africa segment, number four in North America, and the leader in Latin America.

Fiat now generates roughly half of its sales across the Atlantic, and has benefited from Chrysler's expertise in trucks and SUVs with the Dodge, Ram and Jeep brands.

A merger could also provide Renault with a solid partner in case of further turbulence with Nissan, whose executives have resisted the deeper integration sought by former Renault chief Carlos Ghosn.



Ghosn's shock arrest in Tokyo last November threw the alliance into turmoil despite public displays of support from both sides, raising questions about whether the two companies would maintain their cross-shareholdings.

A deal with Fiat could give Renault more weight in any discussions with Nissan, which has grown into the bigger and more profitable player in their alliance, even when Ghosn remained firmly in the driver's seat.

But for now the Renault-Fiat project "leaves the door open for Nissan," a source close to the talks said.

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*North American Free Trade Agreement
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