

New auto giant? Fiat Chrysler wants to merge with Renault

May 27 2019, by Angela Charlton And Colleen Barry



In this Feb. 14, 2019, file photo, this is the Fiat logo is mounted on a 2019 500 L on display at the 2019 Pittsburgh International Auto Show in Pittsburgh. Fiat Chrysler is proposing a merger with French carmaker Renault aimed at saving billions of dollars for both companies. (AP Photo/Gene J. Puskar, File)

Fiat Chrysler proposed on Monday to merge with France's Renault to

create the world's third-biggest automaker, worth \$40 billion, and combine forces in the race to make electric and autonomous vehicles.

The merged company would reshape the global industry: it would produce some 8.7 million vehicles a year, leapfrogging General Motors and trailing only Volkswagen and Toyota.

Shares of both companies jumped on the news of the offer, which would see each side's shareholders split ownership in the new manufacturer.

Renault welcomed what it called a "friendly" offer. The company's board met Monday at its headquarters outside Paris and said afterward that Renault will study the proposal "with interest." In a statement, Renault said such a fusion could "improve Renault's industrial footprint and be a generator of additional value for the Alliance" with Japan's Nissan and Mitsubishi.

Fiat Chrysler's offer comes at a key moment for Renault. The French manufacturer had wanted to merge fully with Nissan, but those plans were derailed by the arrest of boss Carlos Ghosn on financial misconduct charges in Japan.

Now, questions are growing over the Renault-Nissan-Mitsubishi alliance, which together make more [passenger cars](#) than any one company. While Fiat Chrysler says the merger with Renault would accommodate the alliance and lead to savings for them, it is unclear how the Japanese companies might react in the longer term to being tied to a much larger partner.



FCA Chairman John Elkann arrives for a meeting at the Bocconi University in Milan, Italy, Monday, May 27, 2019. Fiat Chrysler is proposing a merger with French carmaker Renault aimed at saving billions of dollars for both companies. Shares of both companies jumped on the possibility. (AP Photo/Antonio Calanni)

Automakers have collaborated more in recent years to build their technological capabilities in developing [electric cars](#), self-driving vehicles and in-car connectivity. Regulators, particularly in Europe and China, are pushing automakers to produce electric vehicles and meet tougher climate change regulations, pressure that only grew after scandals over the amount of pollutants emitted by gas and diesel-powered engines.

A deal would save 5 billion euros (\$5.6 billion) a year for the merged companies by sharing research, purchasing costs and other activities, Fiat Chrysler said. It promised the deal would involve no plant closures, but it didn't address potential job cuts.

The companies are largely complementary: Fiat Chrysler is stronger in the U.S. and SUV markets, while Renault is stronger in Europe and in developing electric vehicles. Analysts say both companies are weak in China, which is now the world's largest auto market.

Together, they would be worth almost 37 billion euros (\$40 billion). Shareholders of Fiat Chrysler, which includes the holding company of the founding Agnelli family with a 29% stake, would get a 2.5 billion-euro (\$2.8 billion) special dividend to make up for an imbalance in company values.

"This operation will bring benefits to both countries," Fiat Chrysler Chairman John Elkann told reporters in Italy, noting that it had been 10 years since Fiat's takeover of bankrupt Chrysler, in exchange for small-car technology and management know-how.

The car market has shifted dramatically in the meantime, with Fiat Chrysler abandoning small cars in the United States in favor of SUVs.



This Thursday Feb. 12, 2015 file picture shows the logo of French car maker Renault seen in a press conference held in Paris. Fiat Chrysler on Monday May 27, 2019 proposed a merger with French carmaker Renault aimed at saving billions of dollars for both companies as the industry pivots to electric and autonomous vehicles. (AP Photo/Jacques Brinon, File)

Analysts at financial firm Jefferies said it was "hard to disagree with the logic" of the deal, as there is a strong fit in the markets each company covers and the brands they offer.

"The elephant in the room is who will run the entity," analysts Philippe Houchois and Himanshu Agarwal wrote in a note to investors.

Mergers of equals can be difficult to manage over questions of who gets

the top leadership positions and which brands are promoted and invested in most. A tie-up between Daimler and Chrysler in the 1990s was billed as a merger of equals, but it eventually collapsed amid cultural differences and recriminations.

Investors were nevertheless enthusiastic about Fiat Chrysler's plan, pushing the company's shares up 8% and Renault's 12%.

The French government, which owns 15% of Renault, said it is "favorable" to the idea of a merger but wants to study the conditions more carefully, especially in terms of "Renault's industrial development" and employees' working conditions, government spokeswoman Sibeth Ndiaye said. "We need giants to be built in Europe."

Ghosn's legal problems in Japan have left Renault vulnerable . Ferdinand Dudenhoeffer, head of the CAR automotive research center at the Duisburg-Essen University, said Ghosn's plans to merge Renault with Nissan-Mitsubishi had "little appeal" for the Japanese.



FCA Chairman John Elkann, center, shakes hands with former Italian Premier Mario Monti, right, as Bocconi University Rector Gianmario Verona stands by them, in Milan, Italy, Monday, May 27, 2019. Fiat Chrysler is proposing a merger with French carmaker Renault aimed at saving billions of dollars for both companies. Shares of both companies jumped on the possibility. (AP Photo/Antonio Calanni)

He noted that Renault's sales represented just 36 percent of 2018 alliance sales - and the Japanese didn't want to see the French carmaker drive a merger with those numbers.

A Renault merger with Fiat Chrysler, however, could strengthen both companies' positions and put pressure on smaller companies like Ford in Europe.

The merger idea is the biggest corporate move so far by Fiat Chrysler CEO Mike Manley, who took his position after the unexpected death last year of the charismatic leader Sergio Marchionne.

What happens to jobs is likely to be a source of concern.

France's influential CGT union warned against cuts, and said it wants the French government to retain a blocking stake in any new [company](#).

Matteo Salvini, the leader of Italy's rightwing populist League party and the deputy premier, said that "if Fiat grows, it is good news for Italy and Italians," though he warned a deal should protect "every single job."



This Jan.24, 2019 file photo shows Jean-Dominique Senard after being

appointed Renault chairman following a meeting of the board held at Renault headquarters in Boulogne-Billancourt, outside Paris. Fiat Chrysler on Monday May 27, 2019 proposed a merger with French carmaker Renault aimed at saving billions of dollars for both companies as the industry pivots to electric and autonomous vehicles. (AP Photo/Christophe Ena, File)

In Tokyo, Nissan CEO Hiroto Saikawa wouldn't comment directly on the merger idea but said, "I am always open to exchanging constructive views on strengthening the alliance."

© 2019 The Associated Press. All rights reserved.

Citation: New auto giant? Fiat Chrysler wants to merge with Renault (2019, May 27) retrieved 29 March 2023 from <https://techxplore.com/news/2019-05-auto-giant-fiat-chrysler-merge.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.