

THE MONOPOLIES AND MERGERS COMMISSION

Compagnie Internationale Europcar and Godfrey Davis Limited

**A Report on the Proposed Merger
of the Vehicle Rental Activities**

*Presented to Parliament in pursuance of
Section 83 of the Fair Trading Act 1973*

*Ordered by The House of Commons to be printed
22 January 1981*

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* These members formed the group which was responsible for this report (see paragraph 1.2).

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CHAPTER 1

Introduction

1.1. On 12 June 1980 the Department of Trade sent to the Commission the following reference:

Whereas it appears to the Secretary of State that it is or may be the fact that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation qualifying for investigation as defined in section 64(8) of the Fair Trading Act 1973, in that:

(a) enterprises carried on by or under the control of Godfrey Davis Limited (a body corporate incorporated in the United Kingdom) will cease to be distinct from enterprises carried on by or under the control of Compagnie Internationale Europcar; and

(b) the value of the assets which will be taken over exceeds £15 million.

Now, therefore, the Secretary of State in exercise of his powers under sections 69(2) and 75 of the said Act hereby refers the matter to the Monopolies and Mergers Commission for investigation and report within a period of six months beginning with the date of this reference.

In relation to the question whether a merger situation qualifying for investigation will be created if the arrangements herein referred to are carried into effect the Commission shall exclude from consideration section 64(1)(a) of the said Act.

(Signed) J A COOKE
An Assistant Secretary of
the Department of Trade

12 June 1980

1.2. On 19 June 1980 the Chairman of the Commission, acting under section 4 of the Fair Trading Act 1973 and paragraph 10 of Schedule 3 thereto, directed that the functions of the Commission in relation to this reference should be discharged through a group consisting of five members of the Commission under the chairmanship of Mr C J M Hardie, a Deputy Chairman of the Commission. The composition of the group is indicated in the list of members of the Commission which prefaces this report. Mr J H Russell resigned later because of other business commitments.

1.3. Notices inviting evidence were inserted in:

<i>The Times</i>	<i>The Guardian</i>
<i>Financial Times</i>	<i>Motor Trade</i>
<i>Daily Telegraph</i>	<i>Autocar</i>

We received considerable written evidence from Compagnie Internationale Europcar (Europcar) and from Godfrey Davis Ltd (GD). In addition we

sought evidence from the Department of Industry (DOI), the Trades Union Congress, the Confederation of British Industry, the British Airports Authority and a number of companies including competitors of Europcar and GD, motor car manufacturers and car fleet users. Eight hearings were held: two each with Europcar and GD and one each with the DOI, Hertz Europe Ltd, Budget Rent-A-Car International Inc and BL Cars Limited (BL).

1.4. We wish to express our gratitude to all those who helped us in the inquiry and particularly to the companies principally concerned. Some of the evidence supplied to us was of a commercially confidential nature, and our report contains only such information as we consider necessary for an understanding of our conclusions.

CHAPTER 2

The Merger Proposals

2.1. On 27 March 1980 it was announced that Compagnie Internationale Europcar (Europcar) had reached agreement with Godfrey Davis Limited (GD) on the terms for the acquisition by Europcar of the short-term rental¹ and chauffeur-driven car hire companies of GD, namely Godfrey Davis (Car Hire) Limited, Godfrey Davis Autoverhuur BV and Godfrey Davis (España) SA.

2.2. Under the terms of the agreement, outlined in a document dated 16 May 1980 to the shareholders, the short-term rental business of GD would be split off into a separate holding company (Hire Company) by means of a Scheme of Arrangement, the shares of Hire Company being issued to the existing shareholders of GD in proportion to their holdings in GD. BV Ravero-Autoverhuur, a wholly-owned subsidiary of Europcar, would then make an offer for the shares in Hire Company of an amount in cash equivalent to £1.15 for each existing ordinary share of GD or, at the option of the shareholders, £1.15 nominal of redeemable guaranteed unsecured loan stock 1985 of the offeror. Midland Bank Industrial Investments Limited (MBII) has agreed with the offeror and Europcar that it will, on completion of the acquisition, subscribe for Cumulative Participating Preferred Ordinary Shares in Hire Company entitling MBII to exercise 19 per cent of the total voting rights in general meetings of Hire Company. The total consideration to be received by shareholders would be approximately £17.4 million. As a preliminary step, Godfrey Davis (Car Hire) Limited has paid to GD an inter-company dividend of approximately £4.6 million to be retained for the benefit of the residual GD business. The terms agreed with Europcar thus value the short-term rental business at £22 million. The offer compares to the middle market quotations for GD shown by the Stock Exchange Daily Official List of £1.375 on 8 February 1980 (the last day of dealings prior to the suspension of the listing of GD shares) and £1.705 on 28 March 1980 (the first day of dealings following the announcement of the proposals).

2.3. At the date of the offer document (16 May 1980) the Directors and certain other shareholders of GD had given irrevocable undertakings in respect of 11,254,637 ordinary shares, representing 74.4 per cent of the issued share capital, to vote in favour of the reorganisation and to accept the offer.

2.4. The Scheme of Arrangement was considered and approved at a shareholders' meeting on 2 June 1980. It was also subject to approval by the Court but the Court hearing on 16 June 1980 was adjourned because of the reference to the Commission on 12 June 1980.

¹ For the definition of short-term rental see paragraph 5.4 (iv)

CHAPTER 3

The Vehicle Rental Market

The relevant market and its development

3.1. The relevant market is that for short-term rental of self-drive cars and light vans and trucks. Until 1975–76 GD also operated heavier commercial vehicles, but then disposed of them in reaction to the business recession. Europcar (UK)¹ at present rents cars only. In addition to self-drive business, GD provides a short-term chauffeur-drive service, but this is a very minor part of its business.

3.2. Godfrey Davis Limited, the oldest-established car hire firm in the United Kingdom, was incorporated as a private company in 1929 on the basis of a self-drive car rental business started by the late Mr Godfrey Davis in 1923. However, self-drive car hire did not develop on a substantial scale in the United Kingdom until the early 1960s when the major American companies also established themselves here. Until the early 1970s, the market was expanding at about 16 per cent annually in value terms. The oil crisis and subsequent business recession checked market growth from 1974, the effect being worsened by a decline in tourist traffic. The market recovered in 1976 and in 1977, Jubilee Year. The expansion continued until 1979 but the market turned down in 1980 as a result of the current recession. However, there is no reason to suppose that the market for vehicle rental is saturated and that long-term growth will not be resumed even if at a lower rate than in the past.

Structure and characteristics of the market

3.3. The market may be classified either by the type of customer served or by the manner in which customers' needs are met. The former approach divides the market mainly into international and domestic tourism; international and domestic business, that is, hiring of vehicles by companies for use by their employees; car replacement in case of breakdown or accident; and casual requirements for self-drive car services. Of these, the first two, which might be called leisure and business, are by far the most important, with leisure requirements predominating in summer. Business requirements have a more consistent pattern of demand throughout the year.

3.4. On the second basis of classification, the services provided may be described as local, national or international, though the boundary lines are imprecise.

3.5. Local services are those provided for customers that require a relatively limited service. In particular, local services do not offer the option

¹ Where the distinction is important we use this expression to denote the operations of Europcar in the United Kingdom.

of one-way rental, that is, of returning the rented vehicle to any location other than the one where it was picked up. In the national sector of the market a more elaborate service is required based on the availability of one-way rentals over a network of locations throughout the country, or at least in the main centres of population, together with facilities such as credit services and a central reservation system. International business, as conventionally defined, takes place when a customer enters the country and rents a vehicle at the point of entry, with or without prior arrangement to do so.

3.6. The division of the rental market into local, national and international is by no means a rigid one. The different types of customers mentioned in paragraph 3.3 are to be found in each sector, and the largest companies in particular operate in all three sectors.

Market statistics

3.7. Accurate statistics for the total rental market are not available because an unknown number of small local operators are not eligible for membership of the relevant trade association, the British Vehicle Rental and Leasing Association (BVRLA), since they do not comply with the membership requirement of only operating cars less than two years old. However it has been unofficially estimated that the total value of car hire grew from £33 million in 1969 to £148 million in 1979 an increase of nearly 350 per cent. This may be compared with the increase in the Retail Price Index over the same period of 225 per cent. While for the reason given above the figures cannot be relied upon for accuracy they nevertheless do provide an indication of the real growth in the self-drive rental business over the decade.

3.8. The following table shows the numbers of vehicles estimated to have been employed at the seasonal peak period in the United Kingdom short-term rental market in 1979:

TABLE 3.1 Number of vehicles in the short-term rental market—1979

<i>Operators</i>	<i>Cars*</i>	<i>Commercial vehicles†</i>	<i>Number of outlets</i>
Godfrey Davis	7,250	990	195
Avis	7,000	1,000	63
Hertz	4,000	—‡	55
Kenning	5,000	1,680	84
Swan National	5,000	450	79
Budget	4,000	1,250	146
Europcar	463	—	19
Others §	about 60,000	about 20,000	2,500–3,500

Notes:

* The figures for the named companies are based on information supplied by GD.

† These figures are mainly for light vans and conversions but include a small number of light trucks.

‡ Although Hertz did not offer commercial vehicles for renting in 1979, it does so now.

§ The figures for cars and commercial vehicles for 'Others' are based on the views of the trade that the total numbers of vehicles operated in the United Kingdom, that is, including those operated by non-members of BVRLA, amounted to 90,000 to 100,000 cars and about 25,000 commercial vehicles (as defined in note †). The numbers shown for the named operators have been subtracted from those totals to give the figures for 'Others'.

3.9. The table provides a broad indication of the comparative sizes of the market sectors described in paragraph 3.5. The business of the major

operators that are named is, except for Budget Rent-A-Car (UK) Limited (Budget), mainly in the international and national sectors, the latter probably accounting for rather more than the former. The remainder of the operators ('Others'), of which there are hundreds, are mainly engaged in the local market. In 1979 585 of BVRLA's members (including the named operators in the table) provided self-drive vehicles for renting. About 10 per cent of them had fleets in excess of 400 vehicles; 45 per cent of them had fleets of less than 25 vehicles. The local sector, taking into account the local business of the major operators (for which comprehensive data are not available), accounts for well over half of the total market in terms of numbers of vehicles employed, but does not represent such a large proportion of total turnover because international and national reservations are more valuable than local ones, and the vehicle utilisation rate of the small operator is probably lower than that of the major operator.

The major operators

3.10. The major operators identified separately in Table 3.1 compete with each other for international and national business, except in the case of Budget's franchisees which operate mainly in the local market. International business is of greater relative importance than national business for Hertz (UK) Limited (Hertz), Avis Rent-a-Car Limited (Avis) and Europcar. At Heathrow Airport, which is by far the largest single source of international business in the United Kingdom, only Hertz, Avis and GD have facilities within the airport perimeter. However, Europcar obtains business referred from its own international network, and both Swan National Limited (Swan National) and Kenning Motor Group Limited (Kenning) have links with large foreign rental organisations which enable them also to compete in this market. Operators also compete for contracts with tour operators, travel agencies, and airlines for international tourist business.

3.11. The national operators, that is those which offer a service throughout the country, are GD, Avis, Hertz, Kenning, Swan National and Budget. Europcar (UK) ranks relatively low in this category and overall since it has so few cars and outlets. GD has by far the largest number of outlets. Although Budget has a large number of outlets, it is a franchise operation, essentially a grouping of independent businesses, mainly motor dealers, each competing primarily in its own local market. This limits the extent to which the Budget organisation can provide a national service with one-way rental facilities, although such a service is in fact offered on a comparatively small scale. Budget does not own the vehicles or outlets forming the business but provides management expertise, training, advertising support, and a corporate image. Swan National and Kenning both have considerable national networks. Avis and Hertz operate with far fewer outlets than GD and international reservations form a higher proportion of their business than that of the rest of this group.

3.12. The major operators compete in the local market to varying extents by offering distinctive services and tariffs to customers. Budget, as already explained, and GD, because of its large number of outlets, are better placed to attract local customers.

3.13. The turnover of GD, in its published accounts, indicates that in 1979 it had a 10 per cent share of the United Kingdom short-term vehicle rental market relative to a BVRLA estimate for rentals, including light vans and trucks, of £216 million in that year. On the same basis Avis' share was about the same and Hertz' a little lower. Since all three were much more involved in the international and national markets than the local market, their shares of those markets were considerably higher than their shares of the total market—Hertz and Avis especially in the international and GD especially in the national markets. Europcar's turnover in the United Kingdom in 1979 was just over £1 million, that is about a half per cent of the total market.

3.14. Details of the business of Europcar and GD are given in Chapters 4 and 5 respectively. A few details about their main competitors in the United Kingdom are given below. Hertz is part of the world-wide Hertz vehicle rental organisation, operating in 110 countries from over 4,000 locations with 275,000 vehicles. It has been a wholly-owned subsidiary of RCA Corporation of the United States of America since 1967. Hertz entered the United Kingdom market in 1958 by purchasing Daimler Hire Limited, eight years after starting in France, still Hertz' biggest European operation. Until 1958, GD was Hertz' United Kingdom licensee. After 1974, as a reaction to the recession, Hertz severely cut back its United Kingdom operations, so that now it is behind Avis in that market though it is still the world market leader. Avis is part of the world-wide Avis organisation, operating from 3,300 locations in more than 100 countries, with a fleet of 235,000 vehicles. It was acquired by Norton Simon Inc of the United States of America in 1977, having been previously owned by International Telephone and Telegraph Corporation (ITT). It has operated corporately¹ in the United Kingdom since 1965. Between 1958 and 1965 GD (after parting with Hertz) was Avis' United Kingdom licensee. The Kenning Motor Group which moved into self-drive hire in 1954, is an independent United Kingdom company for which car rental forms a comparatively small part of its total activities. It is a major BL dealer and rents mainly BL vehicles. It has international links with a number of foreign rental operators including Autohansa GmbH, the German-owned rental company, and with American International Rentacar, a major American operator. Swan National Limited (Swan), a subsidiary of United Dominions Trust Limited, was established in 1973 and has rapidly expanded since then, concentrating especially on business customers. It is a licensee of interRent Autovermietung GmbH, the Europe-wide rental subsidiary of Volkswagenwerk AG. Budget Rent-a-Car (UK) Limited, is part of the American company of similar name, itself part of the Transamerica Corporation. As already noted it is different from the other major groups in that it operates as a franchise business.

¹ We use the expression 'operated corporately' to describe the situation in which a rental company has under its control an operating subsidiary or associate. The main alternatives would be either to have a local operator which is licensed to use the rental company's name, that is a 'licensee' or to enter into an arrangement with another company for the mutual exchange of reservations.

Factors affecting competition in the rental market

3.15. Rental tariffs or rates vary widely depending on the class of vehicle involved and the level of service given. Some companies make a distinction between rates for the national (and international) markets and for the local market where rates are much lower. Moreover, local market rates may vary greatly between areas. While publicly-quoted tariffs are available, rental companies also offer special rates for example, to business customers, or travel agency contracts. It is difficult to compare rates directly between companies because of the differences between the conditions attaching to particular rentals (unlimited mileage or charge per mile, limitations on times of collecting or returning the vehicles, and so on). On the information available about the main operators there appears to be little to choose between the national rates of Hertz, Avis and Godfrey Davis, which tend to be the more expensive, and between Swan, Kenning and Europcar, which are consistently somewhat cheaper. Budget's rates are consistently cheaper than any of the others but, as pointed out, it offers a largely different service. GD and Avis have special local tariffs which, associated with lower levels of service and facilities, are substantially cheaper than their national rates.

3.16. The local market sector is very competitive. Garages and dealers can readily enter this market as a sideline, often on a very small scale, canvassing both local companies and the public for business. A local rental service can be a relatively simple one, making available a number of vehicles (not necessarily new) to satisfy customers wanting to rent vehicles for a short period, and able to return them to the point of origin at agreed, mutually convenient times. It is commonly run as an adjunct to another business, often a motor dealership. Its operation may require few more staff or little extra in the way of buildings, or other overheads, and may be cheaply associated with and be a useful advertisement for the main business of selling cars. It can therefore be profitable on a very small scale. Some local operators offer a wider service including credit facilities and newer and a greater choice of vehicles.

3.17. On the other hand participation in the national market and the ability to offer widespread one-way rental facilities require considerable capital investment, the establishment of a large network of outlets in prime positions, and the provision of the standard and level of services demanded in this market, such as a wide range of vehicles generally less than a year old, with a central reservation system and credit facilities. Because of the high overhead costs, inevitable in setting up and running a national system, a high level of vehicle utilisation is critical. The business houses represent the most important clientele of this market, and the most regular and stable source of reservations throughout the year. For the larger corporations in particular a national rental source is essential, and for many access to an international rental source is also important (see following paragraph). National operators because of their higher overhead costs find it difficult to compete with local operators on price.

3.18. A good national network is necessary to meet the needs of many travellers entering the United Kingdom, but is not of itself sufficient to

enable an operator to compete effectively in the international market. Many reservations for incoming overseas visitors have already been booked abroad as part of the overall travel arrangements, through airlines, tourist agencies and foreign rental operators. To compete for this business at source demands an effective presence or connections in numerous countries. Furthermore, customers whose rental requirements span several countries prefer to book with a single organisation that can provide an effective international reservation system, a service to uniformly high standard, and that has a strong corporate image, in whatever countries it is needed. This factor is particularly important for multinational companies, including United Kingdom ones. Hertz and Avis are predominant in the international reservation sector world-wide because they possess such strengths. GD, which does not, has to rely on 'passing trade' for much of its business at Heathrow, and obtains less business there than the other two.

3.19. The alternative to an international corporate structure is to appoint licensees in other countries, or to enter into an agreement with another rental company for the exchange of reservations. The amount of attention paid to building up a corporate image, or to operating under a common name, varies. GD operates abroad mainly through licensees or associates, as does interRent, the VW subsidiary, Swan National being its United Kingdom licensee. Other companies such as Europcar and Hertz, while having extensive corporate operations, also have licensees, who however use their logo or name, uniform, credit arrangements and so on. An important part of Europcar's operation is its arrangements for exchange of reservations with National Car Rental System Inc of the United States of America. Licensee arrangements are generally regarded as less effective than a more tightly-knit corporate system. That is not to say that national or indeed local operators cannot compete for international business; they do so by developing links with travel agencies or other organisations abroad, but only a limited amount of business is available by such methods.

The cost of vehicles for renting

3.20. A very important part of the costs of a rental company and therefore a main factor in its competitiveness is the 'holding cost' of its vehicles, that is, the difference between what the company has to pay for its vehicles and what it obtains when it sells them. The purchase price which the rental company pays may in the case of the large operators be subject to a special discount, or there may be a re-purchase arrangement with the manufacturer, or some other arrangement which ensures that the depreciation on the vehicles while used by the rental company will not exceed a specific figure. The ability of the used car market to absorb vehicles on disposal from the rental fleets is critical. The larger fleets each dispose of some thousands of vehicles per year—one of the operators described the rental companies as the 'manufacturers of used cars'. Furthermore, the major companies prefer to reduce their fleets in the autumn after the summer tourist and holiday rentals decline; but the demand for used cars also declines at that time. The rental companies therefore need to select cars which are known to have a good resale value, and to have a sufficiently wide spread of makes and models to enable the used car market to absorb their disposal easily and at the best prices.

Importance of airport business

3.21. Car rental is usually closely linked with other forms of transport. Self-drive rental as developed by the large international companies has been associated above all with the growth of air traffic. To serve this market these companies have established networks of rental locations at or near airports which have been extended to national networks in the main markets to meet the needs of other customers as well as those of airline passengers. Europcar is an example of a company that has based its growth primarily on airports, and airport-generated business. However, this is not an inevitable strategy. GD developed as an essentially domestic operation and then used its national capability to attract airline passengers.

The rental cycle

3.22. The seasonal nature of the rental business is an important characteristic of the market. Demand builds up in the spring, peaks in July and August with holiday and tourist traffic, then slowly declines from September to January. The steadiest demand throughout the year is from business travellers.

3.23. GD has arrangements with General Accident Fire and Life Assurance Corporation Limited (General Accident) whereby General Accident's Comprehensive car insurance policy holders are permitted to have the use of a GD car for 14 days free of charge if their car is stolen or off the road because of accidental damage. These arrangements tend to increase demand in the winter (when much of the accidental damage occurs) and so improve the pattern of utilisation of the GD fleet.

Involvement of the United Kingdom car manufacturers in the rental market

3.24. Although the United Kingdom car manufacturers do not operate their own rental companies, they have arrangements to encourage their franchised dealers to operate rental services normally using the particular manufacturer's vehicles. In return for the prospective benefit of selling more vehicles through greater product exposure, the manufacturer provides merchandising support, operational and financial advice, training and possibly credit facilities. For his part, the dealer entering the scheme has to carry the risk of operating losses, and surrenders his freedom to operate independently with a choice of vehicles, or as a member of another rental operation. Involvement, even in a small way, in the car rental market is usually attractive to a car dealer because it provides a form of marketing (demonstration drives) for the dealer's own product, and also a useful additional source of clean well-maintained vehicles for the dealer to sell after they have served their purpose for rentals. These arrangements, though sponsored on a national scale by the manufacturers, provide rental services primarily for the local sector of the market (see paragraph 3.16). They account for a sizeable proportion of the mass of small operators ('Others' in Table 3.1) and the proportion will be increased by BL's decision to support its dealers in this way (see paragraph 6.15).

Supply of cars to rental companies

3.25. Table 3.2 below gives a breakdown for 1979 by make of vehicle of the car rental fleets of GD, Europcar and of the BVRLA membership as a whole compared with the breakdown of new car registrations. No information is available concerning non-members of BVRLA which are mostly small independent operators.

TABLE 3.2 Fleet composition and car registrations—1979

	<i>GD Fleet</i>	<i>Europcar (UK)</i>	<i>BVRLA members*</i>	<i>New Car Registrations</i>
	<i>%</i>	<i>Fleet %</i>	<i>Fleets %</i>	<i>%</i>
Ford	66	49	53	28
BL	8	—	18	20
Vauxhall	14	4	11	8
Talbot	12	4	8	7
Other UK	—	—	1	1
Renault	—	16	9	5
Other imported	—	27	—	31
	100	100	100	100

Sources: Godfrey Davis Limited, Europcar and BVRLA.

Note:

The figures for the first four manufacturers in this table include cars assembled abroad and imported into the United Kingdom. The proportions of such imports were:

Ford	nearly 49%
Talbot	30%
Vauxhall	nearly 16%
BL	nearly 5%

Precise statistics are not available for the proportions of imported vehicles included in the cars supplied by those four manufacturers to the rental companies, but in the case of Ford in particular it would have been considerable.

* Includes GD and Europcar (United Kingdom).

3.26. Individual companies will have particular reasons for leaning to one make rather than another. Dealers will tend to concentrate on makes which they supply. Those who participate in a rental scheme sponsored by their suppliers are normally required to operate the supplier's products. Most Budget franchisees use BL vehicles because they are BL dealers. So does Kenning, as BL main dealers. There are also long-standing associations though not formal arrangements between some of the other main rental companies and the main manufacturers which may influence the selection of cars.

3.27. These connections apart, there are several factors which affect the choice of cars for rental. The most important, as put to us by the rental companies, is the holding cost of the vehicle (see paragraph 3.20). Other factors are economy and reliability in use and the cost and availability of maintenance facilities and spares in the places where they are required. (The latter two factors are among the reasons why some imported cars are as yet relatively little used by the larger rental fleets in the United Kingdom.) It is the good resale value and good operating performance of current Ford products which are regarded as the main reasons for their predominance in the United Kingdom rental market at present. But there is a tendency especially for the larger fleets to concentrate on one or two manufacturers' products (partly also for the reasons mentioned in paragraph 3.26) and not to use others though they occupy considerable shares of the total car market in the United Kingdom. Some advantage is also seen in

offering cars with which customers are familiar, and which they therefore find easier to drive.

3.28. The rental market is considered important by manufacturers, partly as a simple outlet for sales, partly as a rigorous test for new products, and because of the additional sales they look to obtain from the exposure of their products to a large number of potential customers in a short period of time. The importance of this as a marketing tool for manufacturers is reflected in the effort they put into promoting their dealers' rental operations (see paragraph 3.24).

Rental markets overseas

3.29. Apart from North America, where the scale of rental operations is much greater than elsewhere, car rental is considered to have gained greater acceptance in the United Kingdom, especially by the general public, than in Western Europe generally. The structure of the market in other countries in Western Europe, the service provided, and the competition in the market are much the same as in the United Kingdom. A noticeable difference however is that Europcar is a major competitor in continental Western Europe, but not in the United Kingdom.

Commercial vehicles

3.30. This chapter has referred primarily to the renting of passenger cars, although Table 3.1 includes figures for commercial vehicles rented in 1979. We understand that by far the greater part of the commercial vehicles available for rental consists of light vans and conversions (not exceeding 35 hundredweight payload) on which market data have been made available by the BVRLA. Table 3.1 shows that about 25,000 such vehicles (the total includes some light trucks) are estimated to have been in use in 1979. The turnover for this sector of the market in that year is roughly estimated at about £60 million (40 per cent of the turnover for car rental at about £150 million). Information provided by BVRLA shows that the number of light vans and conversions operated by its members was nearly stable in the period 1974-78 (no earlier data are available) although the number of the association's members increased considerably. There was however an increase of about 20 per cent in the number of vehicles operated by BVRLA's members in 1979 compared with 1978. This sector of the rental market may be considered as local in nature, that is, the operation does not depend on a network of locations, the vehicle being almost always returned to the location from which it is rented.

CHAPTER 4

Compagnie Internationale Europcar

History and development

4.1. Compagnie Internationale Europcar (Europcar) was founded in 1949 under the name SA L'Abonnement Automobile. In January 1965 it merged with a number of other French vehicle rental companies and became known as Europcar. Five years later the company was acquired by Regie Nationale des Usines Renault (Renault), the state-owned French car manufacturer, as part of its diversification programme and with the object of creating an international car hire network to compete with companies such as Avis and Hertz.

4.2. During the two years following its acquisition by Renault, Europcar concentrated on developing its facilities in France and establishing new locations in the principal cities. By the end of 1972 the company was ready to expand into other European countries and it began a series of acquisitions with the primary object of building up a strong network of rental stations at airports in Europe.

4.3. In January 1973 Europcar acquired Welte-Furrer Auto Rental Limited, a major independent Swiss car hire company, and in March of that year it acquired from Bayerische Motoren Werke A G (BMW) its German car rental subsidiary, which was renamed Europcar Autovermietung GmbH. Two months later Europcar began operations in Belgium and in July 1973 it established a subsidiary in the Netherlands, Europcar Autoverhuur BV. With the acquisition by the latter of Ravero Beheer Exploitatie of Rotterdam, Europcar was able to offer a comprehensive service in the Netherlands.

4.4. During 1973 Europcar also entered into an association and mutual representation agreement with National Car Rental System Inc (National), the third largest American car rental company. The agreement became operative on 1 January 1974 for an initial period of ten years. Under the agreement Europcar represents National in Europe, Africa, the Middle East and certain French possessions in the West Indies, Latin America and the Pacific; while National represents Europcar in the United States of America, Latin America and the Pacific except for the French possessions referred to.

4.5. In February 1974 Europcar entered into an agreement with Tilden Rent-a-Car System (Tilden) of Canada, by which Europcar agreed to represent Tilden in the majority of its areas of operation (but not those where GD operated, namely the United Kingdom, Netherlands and Spain) and Tilden agreed to represent Europcar throughout Canada.

4.6. At the same time that it entered into its agreement with Tilden Europcar started operations in the United Kingdom from offices near Heathrow

and in Central London. Four months later it acquired the Italian subsidiary of Budget and changed its name to Europcar Italia SPA. A Spanish subsidiary, Europcar Iberica, was established in January 1975 and in Denmark in the same year Europcar formed an association with a company of which it acquired control in 1976.

4.7. While these subsidiary companies were being established, Europcar was also licensing individual independent car hire operators in both France and elsewhere to carry on business under the name 'Europcar'. In this way the Europcar operations were extended into Austria, Finland, Greece, Ireland, Israel, the Ivory Coast, Lebanon, Luxembourg, Malta, Martinique, Morocco, Norway, Portugal, Senegal, Sweden and Turkey, and other smaller markets.

4.8. Thus Europcar now operates a rental network which covers much of the world, and offers a service at quoted rates accordingly.

Organisation and management

4.9. Compagnie Internationale Europcar is a subsidiary of and accountable to Société Financière pour l'Expansion dans l'Industrie (SOFEXI) which is the principal holding company of the Renault group for its financial subsidiaries. SOFEXI, in turn, accounts to the financial director of its parent, Renault.

4.10. SOFEXI's part in the management of Europcar is to consider and approve Europcar's budget and to monitor its general performance. SOFEXI's approval is also required for major capital expenditure for example, for the expenditure involved in this merger proposal.

4.11. Within the framework of the approved annual budget, Europcar is responsible for the management of its operations. It obtains its own financial facilities without the need to seek the prior approval of SOFEXI, except when unusual or long-term financial arrangements are involved. Europcar does, however, make use of the considerable resource of up-to-date information that exists within the Renault group about the availability of finance and about future economic trends.

4.12. Compagnie Internationale Europcar is both the holding company of the Europcar group and also the operating company for the group's rental business in France. The composition of the Europcar group is given at Appendix 1.

4.13. Europcar group's headquarters are at Bagneux, on the outskirts of Paris. The headquarters staff are responsible for co-ordinating the activities of, and providing consultancy services to, the various subsidiary companies and licensees. The functions covered include operations, sales, marketing, advertising, licensee relations, personnel, computer systems, accounting, charge cards, and training. A chart showing the headquarters organisation is given in Appendix 2.

4.14. With the exception of Italy, each of the national operating companies is headed by a general manager who is a national of the country in question.

4.15. Europcar told us that each operating subsidiary is substantially responsible for the management of its own business but is subject to budgetary approval and review of its performance. The general manager of the company concerned is free to determine matters such as the size and composition of the fleet in accordance with his own assessment of local requirements.

4.16. Each subsidiary formulates an independent view of future trading conditions and prepares a market plan and a budget for the forthcoming year, which are reviewed by headquarters staff and may be subject to revision after discussion with the management of the subsidiary concerned. Once its budget has been agreed and approved the subsidiary reports on a monthly basis on its performance and trading position. But there are some matters or circumstances in which Europcar's headquarters would intervene; for example, if a local manager wanted to purchase a particular model of car but headquarters knew that it was to be discontinued and its resale value therefore reduced, or if a proposal was made to set unduly low tariffs or rates.

Finance

4.17. Details of Europcar's capital employed, profitability and source and application of funds for the four years ended 31 December 1979 are set out respectively in Appendices 3 to 5. It can be seen from Appendix 3 that shareholders' equity represented about 13 per cent of total net assets over this period.

4.18. In the year ended 31 December 1979 Europcar's turnover had grown to 295.3 million French francs (£33 million).¹ Its total net assets at 31 December 1979 were 227.6 million French francs (£25 million). During 1979 it employed on average 1,161 people and its average fleet size was 7,758 vehicles.

4.19. In the four years to 31 December 1975 Europcar made losses. As shown in Appendix 4 it also made losses in 1976 and 1977 but profits in 1978 and 1979. These profits after interest but before tax expressed as returns on shareholders' equity were 43.3 per cent in 1978 and 37.1 per cent in 1979.

4.20. The company's fleet size grew from 5,600 in 1976 to 7,758 in 1979. Appendix 5 shows that over the four years to 31 December 1979 funds generated internally have been insufficient to meet the company's requirements, and the deficit has been met by an increase in borrowings. At 31 December 1979 borrowings, including long-term loans of 45.2 million French francs, (£5 million) totalled 193.8 million French francs (£21 million).

¹The sterling equivalents are calculated on the basis of the exchange rate ruling at the time.

4.21. Europcar has arranged lines of credit with a large number of international banks on which drawings can be made if necessary to cover group financial requirements. However, its operating subsidiaries are encouraged to raise the finance that they require from local financial institutions if more competitive terms are offered.

4.22. Europcar told us that Renault does not guarantee any of its or its subsidiaries' borrowing, but that their sources of finance (mainly banks) doubtless are influenced by the fact that Europcar is a subsidiary of Renault, which they presumably expect would stand behind Europcar if difficulties arose. Renault itself has not up to now provided any of the money borrowed by Europcar or its subsidiaries.

4.23. Europcar applies to its subsidiaries a similar dividend policy to that adopted by the Renault group as a whole, that is, not to seek dividends from subsidiaries at a level which would impair their ability to maintain or expand their operations. No dividends have yet been paid by any subsidiary to Europcar and none have been paid by Europcar. From 1981 certain subsidiaries are expected to be in a position to declare dividends without detriment to their own operations and Europcar forecasts that from 1981 to 1985 it will pay to Renault an annual dividend of 5.2 million French francs, being 8 per cent of the nominal capital of Europcar. (This excludes dividends which might arise as a result of the acquisition of GD.)

Europcar (UK)

4.24. Europcar's United Kingdom operation is currently a small one with a total of just over 50 employees. It operates a network of eight locations and has nine others which are operated by licensees. Its airport business is limited to Birmingham and Edinburgh despite attempts to obtain concessions at other airports. The maximum number of vehicles in its rental fleet in 1979 was 463 cars. The following table shows the average composition of the United Kingdom fleet in 1979 and the actual composition at 31 July 1980:

TABLE 4.1 Composition of Europcar United Kingdom fleet 1979-80

	1979	31 July 1980 actual
	%	%
Ford	49.3	59.3
Fiat/Seat	23.0	—
Renault	16.4	20.7
Talbot	4.3	11.9
GM/Vauxhall	3.5	6.4
VW	0.3	—
Others	3.2	1.7
	100.0	100.0

Source: Europcar.

Selection and supply of cars for Europcar's corporate fleets

4.25. Europcar told us that as part of its policy of allowing its subsidiaries a high degree of autonomy, the choice of cars for the various fleets was made by the local managers on the basis of the need to be competitive in the various national markets. This meant that cars needed to have a good resale value, and to be economical to run and to service; there was also advantage in offering cars with which the customer was likely to be familiar and prefer to drive. The deals offered by the manufacturers also played an important part in determining the holding cost of the cars.

4.26. Renault cars naturally form a high proportion of the Europcar fleet in France itself, where Renault cars are popular and supporting facilities are extensive. It was Europcar's general policy to give preference to Renault cars where all other considerations were equal. In France alone, Europcar, like other fleet operators, purchased vehicles direct from Renault but elsewhere it purchased through dealers.

4.27. Europcar gave us details of the composition of its national fleets in Europe in 1979 and compared these with the market shares in various national markets—see Appendix 6. The figures show that for all manufacturers there is little correlation between their share of Europcar's fleet and their share of the national car market; in most cases Renault cars and other cars chosen for the Europcar fleets formed a higher, sometimes much higher, proportion of the Europcar fleets than of the national car markets in question. Except in France (55 per cent) Renault cars were less than half of the individual fleets. In two countries Renault cars were less than 10 per cent of the fleet, in one country between 10 and 20 per cent, in three countries between 20 and 30 per cent of the fleet, and exceeded 30 per cent in the case of Spain (38·5 per cent).

CHAPTER 5

Godfrey Davis Limited

History and development

5.1. Godfrey Davis Ltd (GD) is a public, listed company with an issued share capital of £3.78 million. It is the parent of a group of companies the origin of which is the self-drive car rental business started by the late Mr Godfrey Davis in 1923. GD was incorporated as a private company in 1929 and became a public company in 1959.

5.2. GD entered the vehicle distribution and servicing market in 1938 when it acquired a Ford franchise at Neasden, North West London. Further Ford franchises were acquired at St Albans in 1964, Welwyn in 1966 and three more outlets in North West London and London W1 in the 1970s. The group diversified into the leisure business in 1972.

5.3. GD has 15 principal subsidiaries in the United Kingdom, one in the Netherlands and one in Spain. The group's organisation is set out in Appendix 7.

5.4. The group is organised into four operating divisions:

- (i) *Distribution Division* comprising the Ford franchises retailing new Ford motor cars, vans and trucks, used cars and commercial vehicles, and supplying vehicle servicing and repair facilities.
- (ii) *Leisure Division* operating mobile home parks and holiday centres, and retailing motorised and touring caravans.
- (iii) *Property Division* exists mainly as a holding medium for group properties which are let on rental terms to GD's operating subsidiaries.
- (iv) *Rental Division* operating short-term self-drive vehicle rental, vehicle contract hire and a chauffeur-driven car service. It is this Division, with the exception of the contract hire business, that Compagnie Internationale Europcar proposes to acquire, and which is described as the 'short-term rental business' in the proposals circulated to shareholders on 16 May 1980; that term or 'reference business' is used in this report to denote the part of GD that is the subject of the proposed merger. The term 'Car Hire' denotes Godfrey Davis (Car Hire) Limited which carries on that part of the reference business undertaken in the United Kingdom. In the following paragraphs and in the appendices the financial information relates to Car Hire only and therefore excludes the two subsidiaries in the Netherlands and Spain which together with Car Hire constitute the reference business.

5.5 In the year ended 31 March 1980 the GD group's turnover was £112 million of which £23 million was attributable to Car Hire. Group profit

before tax was £5.3 million of which £2.3 million came from Car Hire. The group employed on average 2,271 persons in the United Kingdom. The group's net assets at 31 March 1980 were £47.8 million.

Organisation and management of the reference business

5.6. The organisation of the reference business is set out in Appendix 8. The United Kingdom locations of the vehicle rental system are managed by 24 district managers who report to six area operations managers. The latter in turn report through an operational general manager and a director to the managing director. The overseas licensees' network has its own manager who reports direct to the managing director as do the managing directors of the subsidiary companies in the Netherlands and Spain. The managing director reports to the chairman of Car Hire who is also the chairman of GD. Finance and budgetary matters are the responsibility of the finance director who reports to the managing director and the chairman of GD.

Development of GD's car rental business in the United Kingdom

5.7. Car Hire has developed a number of services to increase its penetration of the United Kingdom market. These include its Rail Drive scheme with British Rail started in 1969. Car Hire now has exclusive arrangements at 74 inter-city mainline stations which provide rental facilities for rail passengers. The company has representation at 14 airports in the United Kingdom including Heathrow and in 1969 it became the United Kingdom Fly-Drive contractor for British Airways, and in 1978 for Aer Lingus. A Shuttle-drive service is in operation with British Airways which guarantees rental cars without pre-booking to users of the United Kingdom internal shuttle service.

5.8. An arrangement was made with General Accident in 1970 which permits any of General Accident's comprehensive policy holders to have the use of a car with an engine capacity of up to 1,600 cc for 14 days free of charge if that person's car is stolen or off the road because of accidental damage. This is particularly useful in improving the pattern of utilisation of GD's rental fleet.

5.9. In its efforts to attract business from abroad and to offer competition to companies such as Avis and Hertz, Car Hire liaises with the British Tourist Authority and British Airways in promoting, on the North American continent, holidays in the United Kingdom. It also has specially packaged schemes for some tour operators and travel agents, promoted through general selling agents, particularly in North America.

5.10. In addition to its rentals to overseas visitors a considerable part of Car Hire's business is with industrial and commercial companies. In total, including airports and railway stations, Car Hire now has about 195 rental locations in the United Kingdom, the largest number of any rental company in that market.

5.11. Car Hire's turnover in its last two financial years was £20·5 million and £23·2 million respectively. Car Hire is one of the largest United Kingdom vehicle rental companies, and is regarded as the market leader. Although its international, including airport, reservations represent a considerable part of its business—20 to 25 per cent—its main strength lies in the national network it offers in the United Kingdom, which permits one-way rentals and supports its other rental services. It also competes for local business where one-way rentals are not generally available.

International business

5.12. To compete in the increasing international business and tourist markets Car Hire developed its United Kingdom services to attract overseas customers, and its services overseas for United Kingdom customers. These developments were also important to attract the business of both British and foreign companies which prefer to deal with one rental company in meeting the needs of their staff throughout the world. In the 1950s and 1960s Car Hire had licensing and exchange of reservation arrangements first with Hertz, then with Avis, and finally with National. These proved unsatisfactory and when the arrangement with National was terminated in 1973, as a result of National's withdrawal from Europe, Car Hire sought to develop its own international network. Its primary objective was to establish itself in the major European countries where an increase in business was expected as a result of the United Kingdom's membership of the European Economic Community.

5.13. GD had acquired Holland Rent-a-Car Association NV in 1970 and renamed it Godfrey Davis Autoverhuur BV. In 1973 it acquired a car hire business operating in West Germany and West Berlin. In 1974 Godfrey Davis (España) SA was formed in Spain.

5.14. During the early 1970s arrangements were made with licensees in a number of other countries. From 1973, the activities of these licensees were co-ordinated by Godfrey Davis (Europe) Ltd.

5.15. Because of the impact of the energy crisis in 1973–74 on demand and on operational costs, poor local management and the progressive depreciation of sterling, the company's international activities in Germany suffered severely. Following this setback the business, which operated under the name Godfrey Davis Autovermietung GmbH, went into liquidation in 1977 with a loss of £1·1 million. Thereafter GD abandoned its plans to extend its corporate presence overseas but retained its small subsidiaries in the Netherlands and Spain. It continued its development of the international market by operating through licensees, despite the difficulties of controlling standards of service, and of establishing the strong corporate image necessary to compete with companies such as Hertz and Avis.

Car Hire's vehicle rental fleet

5.16. Car Hire purchases its Ford vehicles through GD's Distribution Division (which is a main Ford dealer) and the remainder of its fleet through other car manufacturers' dealers. Sales of ex-rental cars are effected

through Godfrey Davis (Used Cars) Ltd, which sells some 40 per cent through auctions and 60 per cent directly to the trade. Prior to being sold the vehicles are refurbished either at GD's workshops at Neasden or by the auction company. Car Hire told us that it markets some 6,000 ex-rental vehicles each year. Vehicles are normally sold when they have registered 20,000 miles or within one year.

5.17. Major repairs and routine servicing of approximately 40 per cent of the rental fleet are carried out at the group's servicing depots. Minor repairs and the rest of the routine servicing are dealt with by other garages.

5.18. The composition of Car Hire's United Kingdom vehicle rental fleet at the 1979 peak was as follows:

	%
Ford	66
Vauxhall	14
Talbot	12
British Leyland	8
	<hr/> 100 <hr/>

5.19. Car Hire has a high proportion of Ford cars in its fleet (as do some other major rental companies) and told us that its present bias towards Fords is due to their comparatively low holding cost (see paragraph 3.20). Fords are readily saleable in the used vehicle market and are popular with the public, as can be seen from Ford's share of the United Kingdom vehicle market. Availability and the cost of servicing and spares are also major factors.

Finance

5.20. Details of the group's capital employed and the returns achieved on both total net assets and shareholders' funds are given at Appendices 9 and 10 respectively. These returns, on an historic cost basis for the six years to 31 March 1980 and on a current cost accounting (CCA) basis for the three years to 31 March 1980 are summarised in the following table:

<i>Year ended 31 March</i>	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>
<i>Profit before charging interest (£m)</i>						
Historic cost basis	2.2	2.4	3.8	4.7	6.0	8.2
CCA basis				3.2	4.5	5.4
<i>Return on capital employed (%)</i>						
Historic cost basis	10.7	10.6	17.5	16.1	15.1	17.1
CCA basis				10.3	10.8	10.5
<i>Profit after charging interest (£m)</i>						
Historic cost basis	1.2	1.2	2.4	3.5	4.6	5.3
CCA basis				2.8	3.8	3.9
<i>Return on shareholders' funds (%)</i>						
Historic cost basis	10.0	10.4	20.0	22.3	20.3	19.6
CCA basis				15.8	15.9	12.9

5.21. The above figures are based on profits before taxation but profits after tax are similar because, under present legislation, motor vehicles used in daily rental attract 100 per cent tax allowances in their first year of use. The CCA return on capital employed averaged 10 per cent over the three years to 31 March 1980 compared with 15 per cent on shareholders' funds. This reflects the benefit to shareholders of the group's relatively high level of borrowing.

5.22. GD's source and application of funds statement, Appendix 11, shows that in the six years ended 31 March 1980 the funds generated from the group's internal cash flow (retained profit plus depreciation) have not been sufficient to meet its financing requirements including £45.4 million net expenditure on fleet purchases. The group has therefore had to increase its borrowings over the period by £10.7 million so that at 31 March 1980 they totalled £20.7 million compared with shareholders' funds of £27.1 million, a gearing ratio of 0.76:1. In the five years to 31 March 1979 this ratio has been 0.74, 0.92, 0.78, 0.85 and 0.77 respectively. These are based on financial year end (31 March) figures and are considerably lower than the gearing ratios when the size of the fleet is at its peak in or about July each year. The numbers of both owned and leased vehicles in the fleet at the July peak in the years 1975 to 1980 have been as follows:

TABLE 5.1 Number of vehicles in fleet at July peak 1975 to 1980

	<i>Owned</i>	<i>Leased</i>	<i>Total</i>
1975	8,213	1,072	9,285
1976	6,939	780	7,719
1977	5,594	2,183	7,777
1978	7,020	1,211	8,231
1979	8,320	556	8,876
1980	7,417	21	7,438

Source: Godfrey Davis.

Godfrey Davis (Car Hire) Ltd

5.23. Details of the capital employed, profitability and the cash flow of Car Hire for the three years ended 31 March 1980 are in Appendices 12 to 14 respectively. Returns on both historic and current cost bases for the three years to 31 March 1980 have been:

<i>Year ended 31 March</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>
<i>Profit before charging interest (£m)</i>			
Historic cost basis	1.8	2.3	3.5
CCA basis	1.4	1.6	2.4
<i>Return on capital employed (%)</i>			
Historic cost basis	15.9	11.6	17.1
CCA basis	11.7	7.9	10.2
<i>Profit after charging interest (£m)</i>			
Historic cost basis	1.6	1.8	2.3
CCA basis	1.4	1.5	1.7
<i>Return on shareholders' funds (%)</i>			
Historic cost basis	24.2	21.4	36.9*
CCA basis	18.8	16.0	18.4*

* A special inter-company dividend of £4.6 million was paid by Car Hire prior to the group's reorganisation as a preliminary to the proposed merger (see paragraph 2.2); if this is added back to shareholders' funds the returns become 21.4 per cent on historic cost basis and 12.4 per cent on a current cost accounting basis.

5.24. GD considers that the profitability of Car Hire has been satisfactory with a current cost return on capital employed averaging 10 per cent over the last three years. Car Hire accounted for about 40 per cent of the group's profits and capital employed in 1979-80. A comparison of the figures in paragraphs 5.20 and 5.23 suggests that Car Hire has been about as profitable as the rest of the group in the three years to 31 March 1980.

CHAPTER 6

The Views of Third Parties

Views of the Department of Industry

6.1. The Department of Industry (DOI) said the Government's policy was that the United Kingdom motor vehicle market should remain a competitive one, and that domestic manufacturers needed to be able to survive in such a market. But the competition must be fair. The degree of import penetration now reached in the market was a source of considerable anxiety so far as the United Kingdom manufacturers were concerned. Including trade in components, the United Kingdom's once very favourable balance of trade had disappeared; there was a deficit in 1979 and if present trends continued, the deficit would increase. Import penetration of cars was now about 60 per cent and had exceeded that level on occasion. The main sources of imports were Japan and Europe. In the latter case, the greater part of the imports was at present supplied by companies which also assembled in and exported from the United Kingdom. But there was a serious potential threat from the companies which do not assemble in the United Kingdom, such as Renault (which already has a sizeable share of the market, just under 5.5 per cent in 1979). The Department was concerned that unfair practices could follow from the merger, both in the vehicle supply and the vehicle rental markets, and that failure to prevent such practices developing would in this case be to the disadvantage of United Kingdom vehicle manufacturers, already very hard pressed by imports, as well as to other rental operators in the United Kingdom and to their customers.

6.2. The Department's first concern was that Renault could obtain unfair advantage by forcing GD/Europcar to include large numbers of Renault vehicles in its rental fleet. The number of vehicles that might be involved—some few thousand—was not in itself particularly significant when looked at as a proportion of the United Kingdom total market; for example it would be less than half of one per cent for cars. Nevertheless, it could represent quite a substantial loss of potential business to some of the smaller United Kingdom car manufacturers. What was of much more concern to the Department was the 'demonstration effect' that a large increase in the number of Renault vehicles in the rental fleet must be expected to have for Renault's total vehicle sales in the United Kingdom. Vehicle rental was accepted as a very valuable method of advertising to customers, many of whom could be influenced in their choice of purchase by their experience of rentals. The Department was particularly concerned that fleet sales generally, that is sales other than to private customers, might be substantially affected by changes in the composition of the rental fleets; fleet sales (including rental fleets) represent some 60 to 70 per cent of the total United Kingdom car market, and the domestic manufacturers still have a much stronger position in the fleet sector than in the market as a whole.

6.3. A large increase in the number of Renault vehicles in the fleet of the merged company (which for convenience we refer to as GD/Europcar) might be accompanied by depressed prices for them on resale, again leading to increased customer awareness and possible willingness to buy Renault vehicles. This development could also have wider repercussions on price levels in the second-hand vehicle market.

6.4. In addition to the possibility of these particular unfair practices occurring, the Department thought that the acquisition of GD's rental business by Renault would lead to its main competitors—United Kingdom or foreign—moving in self-defence into the rental sector, at national or local levels. At present, no other major vehicle manufacturer had followed Renault into this sector. Such a development would, in the Department's view, lead to a widespread reduction of competition in the supply of vehicles for rental, and in turn to a reduction of competition in the supply of vehicles to the United Kingdom as a whole.

6.5. Finally, there was, in the Department's view, a possibility that GD/Europcar, with the resources of Renault behind it, might offer favourable, perhaps uneconomic, rental terms with the more immediate objective of increasing sales of Renault vehicles by way of advertising through the rental fleet. This would also have adverse effects in the longer term on the interests of the United Kingdom consumer by restricting the choice of vehicles available for rental. The Department observed that, because the international/national and local rental markets were regarded as largely separate, the GD/Europcar share of the former would, at the outset, be about 20 per cent; and, if an aggressive policy of favourable rental terms were pursued, the company's share might increase substantially and rapidly.

6.6. The Department then referred to the motives and objectives of the merger as stated by the two companies. It was not altogether convinced that if the merger did not go ahead the problem of financing its vehicle fleet, as described by GD in the documents sent to its shareholders, would prove to be an insuperable one on the basis of an efficient operation which GD had clearly managed to achieve up to now. The Department acknowledged the advantage of the merger to both parties from the strengthening of the international basis of Europcar's business and the improvement in GD's competitive position in the United Kingdom market.

6.7. But Europcar had offered a very high price indeed for GD's car rental business—so high that the Department found it difficult to accept that the expansion and strengthening of Europcar's rental operations were the sole objectives. The Department was therefore concerned that the merger would create an entirely new situation in the United Kingdom, with the possibilities of unfair competition, as already outlined. It was also necessary to bear in mind that Renault was wholly state-owned, and had a close relationship with the French Government; its objectives and actions could therefore be influenced by Government pressures or considerations arising out of Government policies.

6.8. The Department did not wish to suggest, in the light of the policy of maintaining a competitive United Kingdom market, that the total prevention of the merger was necessarily justified. But if it were to be allowed to go ahead, the Department considered that a condition should be imposed requiring Europcar to give assurances that the choice of vehicles for the GD/Europcar rental fleet would be made on a fair competitive basis, and at arm's length *vis-a-vis* Renault. This should prevent the adverse consequences otherwise foreseen. It was important that assurances should be in as clear and specific terms as possible, both in fairness to all concerned, and so that any failure to observe them would immediately become apparent. The Department considered that the best yardstick of consumer preference in a competitive market would be the proportion of Renault vehicle sales achieved in the United Kingdom market as a whole, and GD/Europcar should therefore be required to accept a limitation on the proportion of Renault cars in its fleet specifically related to Renault's share of the total United Kingdom market. The Department accepted that a rigid and permanent limit on the number or proportion of Renault vehicles in the GD/Europcar fleet would not be justified. But an arrangement on the lines suggested should be operated on the basis that if GD/Europcar intended to exceed the indicated level for Renault cars, it should be required to explain and justify its proposals to those responsible for monitoring the assurance.

Trades Union Congress (TUC)

6.9. The TUC drew attention to the unanimous opposition to this proposed merger expressed by trade unions in the motor industry. The TUC said that unions' main concern was that the present Godfrey Davis fleet would be replaced in time by vehicles with no significant United Kingdom content in terms of components, manufacture or design. Unions were also concerned that the ownership and management of a United Kingdom company would pass out of United Kingdom control and envisage that this would have adverse repercussions for existing negotiating arrangements.

6.10. The TUC also sent a submission from the Amalgamated Union of Engineering Workers—Engineering Section (AUEW-E) in which the union stressed that any attempt gradually to replace the Godfrey Davis rental fleet by Renault cars would have serious employment consequences for its members at Fords. Our attention was directed to the redundancies called for by Fords in June and July of this year.

6.11. The point was also made by the AUEW-E that if the proposed merger was allowed to proceed it would completely alter the nature and structure of the car hire business in Europe and the United Kingdom. There would be considerable scope for a major car manufacturer to cross-subsidise its car rental subsidiary to increase its market share and to reduce stock piles of unwanted cars, and for this reason alone the merger should not be allowed. The union also stated that the French Government took action to prevent Thorn's proposed takeover of Locatel, despite the finding of the French equivalent of the Monopolies and Mergers Commission that there was no breach of French competition rules.

6.12. The AUEW-E summarised its arguments against the merger as follows:

- (1) The AUEW Engineering Section considered the proposed acquisition to be against the public and national interest because there was a great danger that Renault would use this bid as a backdoor method of increasing its car market share.
- (2) At the present time the United Kingdom car industry is not in good shape—any further reduction in demand for its products can only exacerbate its problems and lead to more lay-offs and redundancies—especially at Ford.
- (3) Unfair competition could result in the United Kingdom car rental market, if Renault were to supply cut-price car fleets to Godfrey Davis in order to undercut its competitors.
- (4) Godfrey Davis has at present a nation-wide network of offices—any extension with Renault dealers would give it an even more dominant position in car hire which would enable it to charge prices above the market level.
- (5) If the French Government is preventing takeovers by United Kingdom based companies, why should French-based companies be permitted to make acquisitions in the United Kingdom?

BL Cars Limited (BL)

6.13. BL provided both written and oral evidence to us. It considered that the proposed merger would not significantly affect the level of competition in the car rental industry. It would reduce the number of competitors in the market and therefore limit customer choice, but in a highly competitive market this was unlikely to amount to an effective reduction of competition.

6.14. However, BL was concerned about the supply of cars to the Godfrey Davis fleet if the merger went ahead. It considered that Europcar's operations in the United Kingdom had been conducted on a normal commercial basis and independently from Renault. From information available BL thought that the proportion of Renault vehicles in Europcar fleets in countries outside France was generally about 15 per cent¹. It saw no reason to think that that would change as a result of the merger and if it did not, there would be no conflict of interest with United Kingdom car manufacturers. But it was vital that GD/Europcar's purchases were decided on competitive considerations. Any attempt to launch a 'buy Renault' policy about the 15 per cent level would be detrimental to BL and other United Kingdom manufacturers.

6.15. BL told us that it supplied cars to the car rental market in a manner similar to that of other United Kingdom vehicle manufacturers, namely through its dealers or distributors. Referring to press reports that BL was about to launch a car rental venture called 'British Car Rental', BL told

¹ Note: As shown in Appendix 6 although this is true for the United Kingdom the proportion, in most other cases, is higher than 15 per cent.

us that this was a scheme to provide opportunities for distributors in areas not serviced by anyone offering BL cars in a rental facility. It would be the dealers or distributors themselves who would be responsible for the business and would take the profit. BL's role would be to provide advice on operational and financial matters. Participants in the scheme would not be required to adhere to a fixed scale of rental rates.

6.16. The benefits derived by BL would accrue from advertising, from exposure of its products to users of rental cars which it was hoped would increase sales, and from a service to owners of BL cars who would be able to rent a similar car while their own was being serviced.

6.17. It was stressed to us that this scheme of co-operation in car rental business between a car manufacturer and its dealers was different from the case of Renault, through a subsidiary, acquiring full control of Godfrey Davis' rental business.

Hertz (UK) Limited (Hertz)

6.18. Hertz is one of the seven largest car rental companies in the United Kingdom. It is a wholly-owned subsidiary of Hertz International Ltd, an American company which is the shareholder of all the non-American rent-a-car companies within the group, and is itself a wholly-owned subsidiary of The Hertz Corporation which in turn is owned by the RCA Corporation.

6.19. Hertz began operating in the United Kingdom in 1958 when it purchased Daimler Hire Ltd. In the Hertz network of operations the group has a European divisional structure with headquarters in London. The operating divisions in Europe report to European headquarters in London who in turn report to the parent company in America. Hertz told us that the European subsidiaries fix their own tariffs and decide on the mix of the cars used in their respective fleets, but European headquarters was available for advice.

6.20. It was pointed out to us that, in America, Hertz is a substantial purchaser of Ford cars and has an advertising relationship with Ford. However, the fact that Hertz' rental fleets both in the United States of America and in the United Kingdom consist predominantly of Ford cars is solely because they are considered to be the best for rental purposes and because of their good resale value. In France, Italy and Switzerland Hertz rents relatively few Ford cars.

6.21. Hertz told us that during the early 1970s the United Kingdom vehicle rental market was depressed and Hertz together with its competitors found profitability difficult to achieve. This situation got better and more recently profitability has improved.

6.22. In its evidence Hertz said that it considered that the successful takeover of GD's rental business by Europcar would result in the removal of GD as a major factor and competitive force in the United Kingdom car rental market. Hertz also expressed the view that the ability of other

firms to compete effectively in the car rental market would be likely to be adversely affected by the fact that Europcar, being a subsidiary of a foreign government-owned entity, would not be subject to the kind of profit requirements and budgetary constraints that were usually associated with commercial business enterprises and that certainly applied to Hertz.

6.23. Hertz added that Europcar had a policy in France of following Hertz on prices and keeping them at a level of about 5 per cent below Hertz.

Budget Rent-A-Car (UK) Limited (Budget)

6.24. Budget is a subsidiary of Transamerica Corporation and began operations in the United Kingdom in 1966. It described its position in the rental market as an operation national in scale but composed of individual franchisees each serving primarily its local market. Its business is executed through the agency of some 70 to 80 franchisees who between them own approximately 5,300 vehicles and cover 127 locations.

6.25. In its evidence Budget said it considered that a new factor would be introduced into the competitive situation in the car rental business if Europcar, a subsidiary of Renault, gained control of GD's rental business. It was pointed out to us that Europcar had made little or no profit on its operations up to the end of 1979 especially outside France. It had succeeded in gaining substantial market shares in parts of Europe, not by noticeable price cutting, but by accepting losses or low profits over a prolonged period. Whether the objective was to sell more Renault cars to Europcar or not, that amounted in Budget's view to unfair competition. This could be detrimental to general profitability in the car rental market and to Europcar's competitors which might lose substantial amounts of business as a result. The merger would give Europcar, supported by Renault a state-owned enterprise with very considerable resources, the opportunity to pursue a policy of increasing GD's already large market share regardless of the consequences for profitability.

Talbot Motor Company Limited (Talbot)

6.26. Talbot expressed concern at the possibility that Renault, as a large state-owned enterprise, might use its ownership of GD's rental business to increase its sales of cars in the United Kingdom. United Kingdom manufacturers were experiencing serious difficulties as a result of the general recession and increasing imports.

6.27. It was thought likely that there would be a move towards the hiring and leasing of cars and away from ownership in future and if so the car rental market would be of increasing importance to car manufacturers. It would therefore be particularly unwelcome if Renault sought to increase its share of that market by ensuring that GD/Europcar purchases a disproportionate share of Renault cars.

Swan National Ltd (Swan)

6.28. Swan, which is owned by United Dominions Trust Limited, provided us with both written and oral evidence. It expressed concern that the proposed merger would give Renault, a large state-owned international car manufacturer, the opportunity to place with its own subsidiary GD/Europcar a very large volume of Renault cars for the car rental fleet. The effect of this could mean reduced sales by United Kingdom manufacturers into the GD/Europcar fleet.

6.29. In order to place large volumes of cars into GD/Europcar Renault may also offer exceptionally favourable terms and there is concern that it could then operate in the car rental market on a subsidised basis. In addition to this Renault cars would be likely to gain wider acceptance in the United Kingdom rental market, assisted by the growth in the Renault dealership in the United Kingdom and thus in the servicing facilities available.

Selectacar Rentals Limited (Selectacar)

6.30. Selectacar, which has a small franchise operation in South East England, expressed the view that the proposed merger would have a lasting and damaging effect on the car rental market in the United Kingdom. The company thought that the merger plan had been conceived with a view to the future and as a means whereby Renault would maintain its share of the car market at a time when there is every indication of a decline which could last for some time. Renault would benefit from the exposure of its cars in the rental fleet and that would help its penetration of the United Kingdom car market.

Other interested parties

6.31. No other persons made any major comment or expressed serious concern about the merger.

CHAPTER 7

The Views of the Main Parties

7.1. We describe in this chapter the reasons given by the two main parties for proposing the merger, and the arrangements they will make, if the merger is permitted, to achieve their objectives.

Europcar's reasons for the merger and its objectives

7.2. Europcar's main objective is to strengthen its position in the international car rental market and thus to increase its competitiveness against the current leaders, Hertz and Avis. Europcar also aims to become, as a result of the merger, a major force in the United Kingdom rental market. These two objectives are seen as complementary.

7.3. Europcar's failure, in spite of considerable efforts by Europcar (UK) since 1974, to establish a strong presence in the United Kingdom market leaves a large gap in its European coverage and weakens its international position generally. First, it lacks credibility as an effective operator throughout Europe if it cannot offer an effective service in the United Kingdom, the largest national market in Europe, and thus obtain a share of reservations to and from that country commensurate with its shares in other European countries. The acquisition of GD's car rental business will enable it to do these things. Secondly, Europcar's absence from nearly all United Kingdom airports does not allow it to make the best use of its strong network of locations at many other European airports and its connections outside Europe. Particularly important in this respect is Europcar's failure to obtain facilities within Heathrow Airport, a major source of international tourist and commercial traffic with nearly 28 million passengers in 1979-80, many more than any other European airport. Since GD is already established at Heathrow, and at most other airports in the United Kingdom, Europcar looks to the merger to give it a fully effective presence at these airports. Thirdly, the United Kingdom has connections with other parts of the world that Europcar regards as valuable such as North America and the British Commonwealth countries. Europcar's own presence in areas outside Europe, including its links with National Car Rental in the United States of America, is expected to produce more business if joined to the strengths which GD has in these other respects. Europcar expects to create around a United Kingdom core a network of reservation flows complementary to the one existing between North America, Europe and Africa. It believes that an effect of the merger would be a substantial growth of its business into and out of the United Kingdom, both immediately and in the long term. While much of this incremental business is seen as being won at the expense of competitors such as Hertz and Avis, Europcar believes that a proportion would come from an increase in the size of the market itself. Additional business is also expected to result from extending

GD's arrangement with British Airways to other parts of the world. In turn, the greater international strength provided by the merger will make GD/Europcar more competitive in the United Kingdom market.

7.4. Europcar expects the merger to improve its profitability. GD's rental business has made satisfactory profits and its addition to Europcar's operations as a result of the merger would strengthen the overall profitability of Europcar. The immediate improvement would be marked. More important still in the longer term would be the increase in profits from the combining of Europcar's and GD's strengths as described in the previous paragraph. The merging of GD's subsidiaries in the Netherlands and Spain would be sufficient to bring Europcar's subsidiaries in these countries to the break-even point.

7.5. Europcar considers that the larger financial resources available to it as part of the Renault group will facilitate the maintenance and expansion of the GD operation in the United Kingdom, and reduce the problems of financing the rental fleet at present faced by the GD group with its much smaller resources. The risk of a general curtailment of GD's rental business through financial constraint will also be reduced.

7.6. The acquisition by Europcar of GD's rental business would also provide an important opportunity for exposure of Renault's products. Europcar noted in one of its submissions to SOFEXI on the merger proposals that Renault is virtually unrepresented in the GD short-term rental fleet, and that the merger could result in the sale of more than 1,000 Renault cars per year and provide an opening for Renault's small trucks, since GD also operates a fleet of commercial vehicles.

7.7. An alternative to the merger for Europcar would be continued attempts at internal expansion, based on its existing United Kingdom operations, but on past experience that would be very expensive, very time-consuming and much less certain of success, especially if Europcar could not get into Heathrow. Europcar considered that its failure to establish itself in the United Kingdom rental market—in contrast to what it had achieved in much of Europe—was primarily due to its inability to obtain concessions at Heathrow and other United Kingdom airports. This problem was exacerbated by the fact that a number of major competitors were already established in the United Kingdom before Europcar entered the market.

Godfrey Davis' reasons for the merger and its objectives

7.8. Since the mid-1970s the directors of GD have been increasingly concerned about GD's ability to meet the growing financial requirements of the vehicle rental fleet as the rapid increase in new vehicle prices has been reflected in the growing cost of replacing the fleet. This is illustrated in Appendix 11, GD's source and application of funds for the six years ended 31 March 1980, showing the group's negative cash flow in that period of £10.7 million, which was financed by increased borrowings. In the latter

part of this period the rental fleet increased as the market recovered. At the July peak the fleet in 1977 stood at nearly 7,800 cars; by July 1979 it had increased to nearly 8,900. The subsequent downturn in the market led to a reduction in the July 1980 figure to about 7,400, which will have lessened the financing requirements of GD in the current year as compared with what it would have been if the fleet size had not declined.

7.9. In the absence of an injection of shareholders' capital the gearing ratio (of borrowed funds to shareholders' funds) of the group has been at a level, particularly in 1976, considered undesirable by GD and its bankers. During the period covered the gearing ratios at the financial year end have been as follows:

Financial year ending 31 March

1975	0.74
1976	0.92
1977	0.78
1978	0.85
1979	0.77
1980	0.76

These ratios are considerably lower than when the size of the fleet is at its peak in July each year. The gearing of GD (Car Hire) Ltd, as shown in Appendix 12, has been noticeably higher than that of the group in recent years. But the gearing ratio for the group as a whole is the critical one, because it is the group which has to find the funds needed for the fleet, and its situation which matters most.

7.10. GD has tried to reduce the gearing in various ways. Hire purchase and factoring were rejected because of their relatively high cost. Leasing was tried but proved, in GD's opinion, too inflexible for the short-term rental business where the replacement of vehicles is determined by a number of factors including mileage and level of demand which, it was felt, made it vital to retain flexibility as to the time of sale. Preliminary arrangements were also made to launch a rights issued in 1978, but were abandoned because of the uncertainties felt to be created by a prolonged strike at Fords; in any event GD considered that the proposed issue would have raised too small a proportion of the total fleet financing requirements.

7.11. The use of leasing reduced the group's gearing ratio, as shown in paragraph 7.9. But the abandonment of leasing finance for the rental fleet meant that the group's financial commitment in respect of that part of the business has remained high.

7.12. GD has acknowledged that it has coped with the financing problems reasonably well up to now, at least in the United Kingdom, and its rental business has made satisfactory profits similar to those of the rest of the group. However, GD and its advisors take the view that the GD group lacks the financial strength and spread of risk that are needed if it is to be reasonably certain of being able to cope with the increasing financing requirements of the fleet that will arise if the present inflationary trend in the price of cars persists.

7.13. GD believes that other major rental companies suffer similar financial stresses but that these can be more easily accommodated within the larger financial groups to which they belong. GD also feels that its comparatively limited financial resources have prevented it from taking up the opportunities for expansion available in the short-term rental business. It believes that a large expansion of its United Kingdom network would be justified. There are many centres of population where GD is not represented. A large increase in its locations, perhaps doubling the present number, would strengthen its position in all sectors of the market.

7.14. Over the past few years the fleet financing problem has prompted discussions between GD and other companies about the possibility of their acquiring the GD group as a whole or having some other form of participation in it. Before the Europcar approach, the stumbling blocks in these negotiations had been either the financing requirements of the fleet, or that, because of its main Ford dealership, any purchaser of the GD group would have to be acceptable to Ford.

7.15. GD considers that the merger with Europcar will remove both the problem caused by the growing burden of financing the rental fleet and any future financial constraint on the profitable development of its rental business. It would enable the rest of the group to expand more readily and, in particular, enable it to develop its leisure interests in order to reduce its dependence on car-related activities.

7.16. The merger would also deal with the problems caused by the comparative weakness of GD's international links. GD has no arrangement with any rental operator in the United States of America. It has tried to establish a corporate presence in Europe, in particular in West Germany, where it was forced to abandon the attempt with considerable loss. It now has small subsidiaries in the Netherlands and Spain only (see paragraph 5.3). Since 1973 (when the arrangement it had with National Car Rental System Inc (National) was terminated with National's decision to withdraw from Europe) GD has confined itself in other European countries to operating through licensees, a system which it has found unsatisfactory, and insufficiently competitive in the international rental market. But it has not had the financial resources to undertake the investment needed for large-scale international operations, a weakness which had been made more acute because of the problems of financing the rental fleet. GD's weakness abroad constrains the amount of international business it can obtain, despite its strong United Kingdom network. It has, for example, much less business at Heathrow than Hertz or Avis, and considers that it is less well placed to meet the needs of those business houses, United Kingdom or foreign, which require good service abroad as well as in the United Kingdom.

7.17. In the absence of the merger with Europcar, GD may not be able to maintain its position in the international rental market though opportunities for domestic expansion (subject to the constraints described above) would still exist.

Proposed arrangements for the merger

7.18. The short-term rental business of GD, including its chauffeur-drive business, would be acquired by Europcar via a subsidiary of Europcar BV Ravero-Autoverhuur (see paragraph 2.2).

7.19. GD/Europcar would be managed in the same way as the existing Europcar subsidiaries in Europe (see paragraphs 4.13 to 4.16 and 4.21 and 4.23).

7.20. Europcar intends that all the existing employees of GD (Car Hire) Limited (Car Hire) engaged in the business to be acquired should continue with the company including the managing director and other senior managers who have been offered new contracts. In addition, it has asked Mr C A Redfern, the present chairman (and chairman of the GD group), to continue for a period as executive chairman. In this way Europcar believes that Car Hire's past success and profitability would be maintained.

7.21. Europcar has given undertakings that the existing rights, including pension rights, of the employees of GD affected by the merger will be maintained and has stated that it has no intention of making any of them redundant.

7.22. Europcar intends that, apart from changes necessary to integrate Car Hire into Europcar's reservations system and to co-ordinate marketing arrangements, day-to-day management of the acquired business should remain generally unchanged. Mr Redfern, as chairman of GD/Europcar, would report to the president of Europcar.

7.23. GD's subsidiaries in the Netherlands and Spain would be integrated with Europcar's subsidiaries in those countries. Car Hire's arrangements with European licensees would be terminated.

7.24. Europcar intends and GD understands that the management of GD/Europcar will have operational autonomy including the fixing of tariffs and the purchase and disposal of vehicles, which will be carried out on the basis of the need to be competitive in the United Kingdom market (see paragraphs 3.26 and 3.27).

CHAPTER 8

Conclusions

The merger situation

8.1. Under the terms of the reference and the provisions of section 69(1) and of section 75(2) and (4) of the Fair Trading Act 1973, we are required to investigate and report whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a merger situation in which section 64(1)(b) will be satisfied. The reference requires us to exclude from consideration section 64(1)(a).

8.2. Godfrey Davis (Car Hire) Limited is one of the group of companies under the control of Godfrey Davis Limited for which Compagnie Internationale Europcar made its offer (see paragraph 2.1). Appendix 12 which is referred to in paragraph 5.23, shows that on 31 March 1980 the assets of Godfrey Davis (Car Hire) Limited exceeded £15 million. The condition set out in section 64(1)(b) is therefore satisfied.

8.3. By virtue of section 64(8) a merger situation qualifying for investigation exists if two or more enterprises have ceased to be distinct enterprises in the circumstances described in section 64(1). Under section 75(2) we are required, in effect, to proceed in relation to a prospective merger as if it had taken place immediately before the reference.

8.4. The offer made by Compagnie Internationale Europcar, through its wholly-owned subsidiary BV Ravero-Autoverhuur, lapsed on the reference to the Commission. It appears to us, that, unless it is prohibited from doing so under the Act, Compagnie Internationale Europcar intends to renew the offer. Arrangements are therefore in contemplation which, if carried into effect, will result in enterprises carried on by or under the control of Godfrey Davis Limited ceasing to be distinct from enterprises carried on by or under the control of Compagnie Internationale Europcar.

Issues of public interest

Structural aspects of the merger

8.5. The merger is of a horizontal nature in that Europcar and GD supply the same service namely vehicles for short-term self-drive rental. It is also vertical in that Renault, which controls Europcar, is a potential supplier of vehicles to GD/Europcar (that is, the merged company).

8.6. Renault could ensure that GD/Europcar would purchase its vehicles for the rental fleet, and could prevent other car manufacturers from competing for all or part of GD/Europcar's needs. It could thus immediately

increase its sales of vehicles in the United Kingdom, both by treating GD/Europcar as a captive buyer, and possibly by influencing other purchasers. Renault could also supply vehicles on exceptionally favourable or subsidised terms. As a result GD/Europcar might be forced to operate a large number of Renault vehicles which were less competitive for rental purposes in the United Kingdom than other makes, or it could offer its services at unfair prices, which would distort competition in the car rental market. Such a development would reduce the stimulus to competition in the car rental market that GD and Europcar claimed would result from the merger. It would be difficult to detect and deal with the internal transactions that would take place if Renault, a large state-owned foreign enterprise, decided to act in such ways. Thus the vertical aspect of this merger has anti-competitive possibilities, which we analyse below before turning to other issues.

Competition

8.7. We consider first the effect which the merger may be expected to have on competition:

- (a) in the supply of cars in the United Kingdom and
- (b) in the short-term self-drive car rental market in the United Kingdom.

8.8. We deal similarly with the possible effects of the merger so far as commercial vehicles are concerned in paragraphs 8.38 to 8.40.

8.9. We have considered the possible effects of the merger in two different situations; first, what the effects might be if Renault were to supply its cars to GD/Europcar in circumstances which did not lead to widespread structural or other changes in the short-term car rental market; and secondly, if Renault's main competitors in the United Kingdom car market entered the rental market to counteract Renault's competition through GD/Europcar.

8.10. Renault's long-term strategy is to expand and survive as a volume car manufacturer in a world where the number of such manufacturers is declining and seems likely to decline further. Because of that it might treat GD/Europcar as to some extent a captive outlet for its cars. The fact that the proportion of Renault cars in most of Europcar's national fleets is noticeably higher than Renault's share of the respective total national car markets suggests to us that it may be doing so elsewhere. Moreover, as put to us by Europcar, if all other things are equal it chooses Renault cars for its fleets. We note that in its internal submission to SOFEXI about the merger, Europcar said that the merger could result in the sale of more than 1,000 Renault cars per year to GD/Europcar, and an opening also for Renault's small trucks. We have no doubt that Renault, in difficult market conditions and therefore under pressure to use all its possible outlets to sell its cars, would be able to ensure that GD/Europcar purchased more Renault cars than competitive considerations might allow. GD/Europcar would not be able to resist such pressure if Renault persisted.

8.11. There is a further consideration, whether the presence of a large number of Renault cars in the GD/Europcar fleet would have a wider impact in the market by influencing the decisions of other customers. This could increase the effect of any anti-competitive action in the supply of cars to GD/Europcar itself. There is a wide measure of agreement among car manufacturers that the exposure of their products by means of renting helps to increase their sales to other customers. It is an important reason for car dealers' involvement in rental and the manufacturers' support of that involvement. Large-scale use in the rental fleets also helps to detect and deal with defects or problems in new models. The increased penetration of the used car market which is obtained has a direct effect on the private customer. The large car rental companies also take the view that the above factors help manufacturers to increase their sales. However, no-one has been able to quantify the effect on other customers of the use and exposure of cars in the rental fleets. Some people are sceptical about it, including some large industrial and commercial enterprises which we consulted and which told us that the choice of cars for their fleets, which are of considerable size, is not influenced by the large rental companies' choice of cars. Indeed it is to some extent the preferences of the wider national market which influence the rental companies and not the other way round, because the rental companies see advantages in being able to offer their customers cars with which they are likely to be familiar and find easier to drive. It is therefore not possible to do more than make a general allowance for the effect on total sales of the exposure and use of cars in the rental fleets.

8.12. But, whatever the attraction to Renault of GD/Europcar as an outlet, there are some considerations which are likely to restrict the lengths to which Renault might in any case be prepared to go in exploiting it. We accept that Europcar, with Renault's support, does intend to continue its efforts to become an effective car rental operator on a world-wide basis. There would be a direct conflict with that objective if any steps were taken that seriously weakened the competitiveness of GD/Europcar, which would be Europcar's single biggest corporate operation. The inclusion of a high proportion of Renault cars in GD/Europcar's fleet, if such cars were not economical to operate in the United Kingdom, or acceptable to many of GD/Europcar's customers, may be expected to reduce the competitiveness of GD/Europcar. It must also be borne in mind that the extra sales represented by some part of the GD/Europcar fleet, while doubtless not negligible to Renault, are small compared with its existing deliveries to the United Kingdom, now running at just under 100,000 cars per year, and very small compared with Renault's total output of cars, nowadays over 1½ million per year.

8.13. We now consider to what extent sales of cars in the United Kingdom might be affected by the merger. Europcar has provided us with details of the composition of its national fleets in a number of countries in Europe, and Renault's shares of the total car markets of those countries (see paragraph 4.27 and Appendix 6). The figures show that there is quite a wide variation in the proportions in which the most favoured makes are represented in Europcar's national fleets in Europe. Of Europcar (United Kingdom)'s small fleet of 463 cars in 1979, for example, the proportion of

Renault cars was about 16 per cent (compared with Renault's share of the total United Kingdom market of just under 5.5 per cent). We do not think that this should be taken as indicating that Renault may be expected to supply 16 per cent or thereabouts of the GD/Europcar fleet, which would currently amount to rather more than 1,000 cars. However, Europcar itself mentioned possible sales of more than 1,000 cars in its memorandum to SOFEXI (see paragraph 7.6). By far the highest proportion of Renault cars in any of Europcar's fleets is, naturally, in France. In 1979 the proportion was about 55 per cent (compared with Renault's share of the French car market of about 35 per cent). That situation can be applied hypothetically to the post-merger situation in two different ways. First, Renault cars might comprise about 55 per cent of the GD/Europcar fleet, which would amount to some 4,000 cars. We regard this as the upper limit of plausibility. Such a high proportion of Renault cars, if it occurred in that fleet alone, would in the present circumstances be *prima facie* evidence of anti-competitive action. The second hypothesis is that the proportion of Renault cars in the GD/Europcar fleet would bear the same relationship to Renault's share of the total United Kingdom car market as exists between its share of the fleet of Europcar (France) and the French car market. This would imply a share of about 10 per cent of GD/Europcar's fleet or, on the basis of GD's fleet in 1979, rather less than 1,000 cars. All the above figures are no more than illustrative, in the light of Europcar's experience. In assessing the possible effects of the merger, some allowance would also need to be made for additional sales that might arise from the exposure of any Renault cars included in GD/Europcar's fleet. On the other hand, as we have said, it should not be assumed that the attraction of GD/Europcar as an outlet for Renault's products would be allowed to override the need to maintain GD/Europcar's efficiency and competitiveness if Europcar's objectives from the merger are to be achieved.

8.14. The conclusion we reach is that at the very most the merger might affect the sales of a few thousand cars per year. The share of the United Kingdom car market which might thus be affected would be a fraction of 1 per cent of its level in 1979 and 1980 (up to and including August) of just over 1,700,000 new registrations per year. The scale of the possible effect is too small to represent a detriment to competition sufficient to give rise to serious concern. In coming to this view, we have borne in mind the high level of car imports at present, and we have assumed that any displacement by Renault cars in GD/Europcar's fleet would substantially affect imported makes as well as domestic ones.

8.15. We are mindful of the argument put to us by the Department of Industry (DOI) that the degree of import penetration of the United Kingdom car market has reached such a high level that any further increase in imports, even if quite small, could have a disproportionately serious effect on domestic manufacture, on employment, and on the use of resources. We consider, however, that the maximum increase in the share of the United Kingdom car market that might be gained by Renault as a result of this merger is unlikely to have a critical effect. The DOI and others also argued that any adverse effect of the merger should be looked at from

the point view of the smaller United Kingdom manufacturers, such as Talbot or Vauxhall, whose current deliveries in the United Kingdom are at the same level as Renault's, and for which it could represent quite a substantial loss of business. We believe that any loss of sales arising from the merger would almost certainly be spread over a number of manufacturers; indeed, at present Ford with its share of about two-thirds of GD's fleet (including imported Ford models) would be likely to feel the effects of any anti-competitive action by Renault more than the other manufacturers.

8.16. We have considered the suggestions put to us by the DOI and others that there is a case for some limitation on the number or proportion of cars which Renault might supply to GD/Europcar, or some understanding about the extent to which and the terms on which Renault might reasonably supply GD/Europcar. We are not convinced that a general requirement that there should be arm's length trading between Renault and GD/Europcar, coupled with a requirement that they would be prepared to explain any increase in the proportion of Renault cars above some indicated level, would be clear and enforceable. A specific limit or ceiling would be simple to operate, but there would be considerable difficulty about finding a justifiable basis for a precise figure. We considered also that the inclusion of a specific limit would be a quantitative restriction on imports into the United Kingdom and therefore prohibited by Article 30 of the Treaty of Rome. Taking also into account our assessment of the possible effects of the merger in the car market, we decided not to pursue the approach of a limitation on the number or proportion of Renault cars to be included in the GD/Europcar fleet as a safeguard against possible anti-competitive action.

8.17. We turn now to the second issue mentioned in paragraph 8.9, namely whether the reaction of Renault's main competitors might be more pronounced, to the extent of moving into the car rental market on a corporate basis, that is to acquire or to create rental companies which would operate under their control. If that were to happen there could be a distortion of competition on a large scale. But we do not think it is at all likely to happen.

8.18. United Kingdom manufacturers have already decided to enter the car rental market, but in a different way. They have done so by supporting their franchised dealers on a national and organised basis. Ford and Vauxhall have been doing this for some years, and BL is now joining them. Ownership and primary responsibility for these operations rest with the dealer. No manufacturer (apart from Renault) has entered the United Kingdom rental market on a direct or corporate basis. Indeed, so far as we know, Renault is the only car manufacturer to have become directly involved in the rental market in Europe or North America, with the exception of Volkswagen to a limited extent in that the West German and Belgian operations of its wholly-owned subsidiary interRent are corporate operations; all the rest are franchised.

8.19. A general invasion of the car rental market by the car manufacturers seems to us unlikely to happen unless they were prepared to go well beyond their present established involvement through their dealers in the local rental market—that is, to set up a national rental operation which might aim also to acquire some international business, even if not on the same scale as Europcar, Hertz or Avis. The preferred method of entry in such a case would doubtless be by acquisition, but the possibilities for that are very limited. It seems to us unlikely that any of GD's main competitors could be readily acquired. With one exception, they are parts of large United Kingdom or international groups. The cost and effort of building up an entirely new operation in a very competitive market already served by half a dozen major suppliers would be daunting, as would the risks.

8.20. So far as Renault's competitors in the United Kingdom see a need to react, we expect them rather to do such things as increase their support for their dealership rental operations, or make still more attractive the terms offered for their cars to the rental fleets and to other fleet purchasers which, they may feel, could be influenced by the presence of a large number of Renault cars in the GD/Europcar fleet.

8.21. There is one other effect on the sales of cars to which the merger may contribute. To the extent that Renault excludes competitors from supplying the car rental fleets of Europcar in other countries, it is restricting, *inter alia*, the opportunities for United Kingdom manufacturers to export. If Europcar with active support from Renault continues to grow, and possibly gives more emphasis to corporate rather than associated or franchised operations, the total sales involved world-wide could be considerable. But they would still remain small fractions of the national markets in each case, as we have concluded is the case with GD/Europcar and the United Kingdom car market. We do not think that this development, if it occurs, will itself produce effects which will be materially detrimental to the export opportunities of United Kingdom manufacturers.

8.22. GD's current share of the United Kingdom self-drive car rental market is about 10 per cent and Europcar (United Kingdom)'s is about half a per cent. The merging of these two suppliers and their existing market shares would not in itself therefore significantly change the concentration of the industry in the United Kingdom self-drive rental market.

8.23. The merger would not be likely to have a major impact on the local car rental market. This accounts for perhaps one-half of the total rental market in the United Kingdom. As described in paragraph 3.5 the local sector is largely separate from the international and national sectors. The companies involved in it operate at much lower costs than are incurred in running a large international or national network, because of its different requirements, and the ways in which those requirements can be met. A very large growth in the network of GD/Europcar or another major company could have an impact on the regional or local customer, indeed that would be one of the objectives. If a development of that kind does take place (and the merger may facilitate it so far as GD/Europcar is concerned)

it would increase competition in the local market. It might also stimulate reactions from the larger operators in the local market to compete in the national market, as for example Budget Rent-a-Car is already doing by developing its national capability.

8.24. It is in the international and national sectors of the market, which are the main ones for both Europcar and GD, that the effects of the merger would mainly be felt. The merger would bring together GD as the market leader in the United Kingdom with its particular strengths deriving from its large network, its links with BR and British Airways, and above all its presence at Heathrow, and Europcar with its established network in Europe and its links with other rental companies elsewhere across the world. The integration of GD into Europcar's network may be expected to lead to a considerable increase in competition, primarily against the principal operators Hertz and Avis, for international reservations to and from the United Kingdom, not only within Europe but also to and from North America and other parts of the world.

8.25. The merger may be expected to bring other advantages. GD has told us of the limitations which it has felt have been placed on the development of both its reference and its other business because of its shortage of financial resources, and of its concern that the financing of its car rental fleet may become increasingly burdensome. Because GD has said that this is an important reason for the merger, we have examined the issue closely, and also obtained independent professional advice. We deal with it in the following paragraphs.

8.26. The issue as put to us by GD and the way it has dealt with it are set out in paragraphs 7.8 to 7.14, which show how the burden of financing the car rental fleet has grown in recent years, and how the borrowings of the GD group have increased in this period.

8.27. So far as profitability is concerned, the results of the whole GD group and of Car Hire (see paragraph 5.4(iv)) for the three years ended 31 March 1980 can be summarised as:

Profit before interest as return on capital employed

	<i>Group</i>		<i>Car Hire</i>	
	<i>(Historic cost basis)</i>	<i>(CCA basis)</i>	<i>(Historic cost basis)</i>	<i>(CCA basis)</i>
	%	%	%	%
1977-78	16.1	10.3	15.9	11.7
1978-79	15.1	10.8	11.6	7.9
1979-80	17.1	10.5	17.1	10.2

The returns of GD's reference business have on average been similar to those of the rest of its business, of which its dealership in Ford cars is by far the greatest part. The group's profitability has compared favourably with that of industrial and commercial enterprises generally in the United Kingdom in this period.

8.28. Our views on the financial issue as put to us by GD are as follows. We accept that the burden of financing the rental fleet is a problem for GD, and that it has been a limitation both on the group as a whole and on the development of its reference business. We accept that some of the solutions that have been attempted or considered such as leasing or a rights issue are not sufficient answers, at least in the present and immediately foreseeable economic and financial situation.

8.29. We have no doubt that GD on its record could not only survive but could, within the present group, continue to run its car rental business profitably on its present lines if not also on its present scale. But we accept that the financial resources of the whole GD group are not large enough for it to expand and compete strongly in the international rental market. It has tried to do so without much success. When considering international opportunities, it is understandable that GD's management should emphasise the difference between its own position and the positions of its main competitors, which are parts of large international groups. We accept also that the further expansion of GD's present network and services in the United Kingdom may be hindered for the same reason, though we think it should be possible for GD, if it remained independent, to continue to expand gradually in the United Kingdom, as resources allow, even if that would not be feasible overseas.

8.30. We think that, because of the greater financial resources available to Europcar, the merger will both remove any danger that might exist of a future curtailment of GD's present business because of the strain of financing its fleet and, perhaps more important, will facilitate the developments for which funds have not been available to GD as described above. Europcar will be in a position to build on the competitive position created by the merging of its and GD's existing strengths (see paragraph 8.24). By doing so, Europcar expects to continue to increase its international business. Its larger resources will, in pursuance of that objective, enable it to apply computer processes to its reservation system and other transactions more than GD might be able to do if it remained independent. Within the United Kingdom GD/Europcar will be in a position to undertake a major expansion of GD's already strong network more readily than GD based on its smaller resources. If that happens competition in the United Kingdom car rental market will be increased. Foreign business and tourist customers would be attracted by the enhanced facilities available and so would United Kingdom customers, including business houses who might be increasingly prepared to place their business with Europcar because of the services it could offer both in the United Kingdom and abroad.

8.31. The realisation of the prospective advantages which we have identified from the merger naturally depend on Europcar and Renault allowing GD/Europcar to be fully efficient and competitive. We have noted that GD's performance, judged for example by its profitability has been better than Europcar's until recent years. Might GD become less effective after coming under the control of Europcar?

8.32. Europcar has stated that it intends to retain the existing management of GD (Car Hire) Ltd, including all the top management, to make only minor changes in existing day-to-day management and arrangements, and to leave GD/Europcar to operate as do its other national subsidiaries as largely autonomous units. As regards Europcar's own financial record, we consider that losses and setbacks are inevitable in the early stages of building up a rental operation on the scale being achieved, and against competitors such as Hertz and Avis. Europcar told us of some failures in management in the early years of its expansion, and of the changes in management made to improve its performance. Since 1978 Europcar has been making profits. It appears to us to be efficient in operational and technical respects, and no-one has suggested otherwise. We see no reason to doubt that GD/Europcar can be fully efficient within the Europcar organisation.

8.33. We conclude that the benefits which are apparent to Europcar from this merger will be sufficient inducement to it and to Renault to ensure that GD/Europcar continues to be as efficient and competitive as GD has been in the past, and to take up opportunities for further development, though we have obtained from Renault an assurance that it will not supply cars on terms which *inter alia* might enable GD/Europcar to go so far as to charge unfairly low prices in the car rental market (see paragraph 8.36).

8.34. The above comments on competition in the United Kingdom car rental market are based on the structure of the market remaining much as now, or developing naturally. We have already considered, when dealing with competition in the car market (paragraphs 8.18 to 8.20), whether the merger may cause other car manufacturers to enter the rental market directly as a means of defending their shares of the car market against Renault. We took the view that such a development is unlikely. We are not aware of anything in the current situation of the United Kingdom car rental market itself, or any future development in the market, which causes us to change that view.

8.35. In paragraph 8.16 we explained why we had not pursued the suggestion that some limitation should be placed on the quantity of cars which Renault might supply to GD/Europcar. As set out above, we think that the merger may be expected to produce substantial benefits to competition in the car rental market. Nevertheless, there is one step which Renault could take which would lead to unfair competition in both the car rental and car supply markets. It could supply cars to GD/Europcar on specially favourable or subsidised terms, which would then enable GD/Europcar to offer reduced, possibly uneconomic, rates for its rental services. There are strong inducements to Renault and Europcar to ensure that GD/Europcar remains genuinely competitive, and the risk of such anti-competitive conduct occurring is, in our view, small. Nevertheless, we decided that there would be advantages in obtaining an assurance that such conduct would not take place, as a further safeguard against it.

8.36. We therefore sought and received from Renault an assurance in writing as follows:

'Regie Nationale des Usines Renault (Renault) will not make or allow

to be made by itself or any of its subsidiary or associated companies, dealers, concessionaires or any other person under its control any arrangements whereby the company operating the car rental business previously owned by Godfrey Davis Limited (merged company) would be able to obtain Renault vehicles or vehicle parts at prices or terms (including terms as to discounts, rebates, credit and repurchase arrangements) more favourable than those that could be obtained for transactions (of comparable size and made within a reasonable period of each other) by other vehicle rental operators or other customers in the United Kingdom. Further, Renault will make available to the appropriate authority in the United Kingdom such information as that authority may request to satisfy itself that the above assurance is being observed.'

The Competition Act 1980

8.37. Under this Act powers are available to the Secretary of State and to the Director General of Fair Trading to take action against anti-competitive practices on the part of a single company or person. We note that those powers would be available if, despite our assessment of the effects of the merger and despite the assurance received from Renault, anti-competitive practices are pursued in the situation that would be created by the merger.

Commercial vehicles

8.38. In considering the possible effects of the merger on competition, as above, we have primarily had in mind passenger cars, whether dealing with their supply or their renting. The business of GD, which Europcar wishes to acquire, includes the renting of light vans and trucks, which we shall refer to as commercial vehicles. GD rented nearly 1,000 of these vehicles in 1979 (compared with 7,250 cars). It was therefore a not inconsiderable part of its business, though in terms of numbers of vehicles used, GD was less prominent in the commercial vehicle than in the car rental sector.

8.39. We need to consider the possible effects of the merger, as we did for cars, both on the commercial vehicle supply and on the commercial vehicle rental markets. So far as the supply of vehicles is concerned, we understand that more than 200,000 of the types of vehicles in question were delivered to the United Kingdom market in 1979. GD's rental fleet therefore represented about half a per cent of that market which is about the same proportion as its car fleet represented of the United Kingdom car market. On that basis, and since most of the considerations which apply to cars apply also to commercial vehicles, we conclude that the merger may be expected not to have a significant effect on competition in the commercial vehicle market in the United Kingdom. We note that Europcar mentioned in one of its submissions to SOFEXI that this part of the GD fleet could, after the merger, provide an opening for Renault's small trucks (paragraph 7.6). Renault at present supplies less than 1 per cent of commercial vehicles of all types sold in the United Kingdom market.

8.40. As regards the renting of commercial vehicles, we have already said (paragraph 3.30) that it is primarily a local market. As such it would not be substantially affected by the merger, the effects of which, as has already been explained, will be felt mainly in the international and national sectors of the rental market. No-one has expressed concern to us specifically about the effects of the merger on the renting of commercial vehicles (or indeed on the supply of such vehicles) and we conclude that the merger would not have any significant effect in the rental market for commercial vehicles as defined above. The assurance we have received from Renault about the terms of supply of vehicles to GD/Europcar (see paragraph 8.36) covers all the vehicles that may be involved including commercial vehicles, and offers therefore an additional safeguard to competition in both the supply and the rental markets for those vehicles.

Employment

8.41. Europcar told us that it expects to retain all of Car Hire's staff including its management. Further, the existing rights of the staff, including remuneration, terms of employment and pension rights will be maintained, as will the existing representation and negotiating rights of the trade unions. Europcar has no intention of making any redundancies in Car Hire, indeed the company envisages that the long-term growth that is expected as a result of the merger will create more jobs.

8.42. Only the two Europcar stations at Birmingham airport and at Manchester (City) will be retained. The remainder will be closed. The company has a total of just over 50 staff of whom about 20 will be taken on by GD/Europcar and a few will be transferred to Europcar International. Some redundancies, perhaps 20, may therefore occur. But a high turnover of reception staff is a characteristic of the car rental business and GD/Europcar might be able to absorb some of the redundant staff.

8.43. The TUC (see Chapter 6) told us of its concern at the potential loss of employment in the United Kingdom car manufacturers if the proportion of Renault cars in the GD/Europcar fleet is substantially increased. We have stated in paragraph 8.14 that we believe that the proportion of the United Kingdom car market which might be affected by the merger would be well under 1 per cent, taking into account the effect on imported cars as well as those assembled in the United Kingdom. It is not possible to identify any effects with such precision as to point towards the impact there might be on the use of resources or on employment by United Kingdom car or component manufacturers. But we consider that this potential problem is small compared with the problems posed for domestic manufacturers, first by imports which now account for more than half of the total United Kingdom market (principally from Europe and Japan), Renault's share of these imports being currently about 10 per cent; secondly by the generally depressed state of the car market. The merger will help to create new jobs if as expected it facilitates the expansion of GD's present network and of the market. No estimate of the number of new jobs is available, but if an expansion programme is carried out on the scale indicated to us (see paragraph 7.13) the number of new jobs would be substantial, running into some hundreds.

8.44. We conclude that the merger is unlikely on balance to have any adverse impact on employment and may have a beneficial effect because there would appear to be a greater likelihood of the creation of new jobs in the rental business than of the loss of jobs by car and component manufacturers that might be directly attributable to the merger.

Opportunities for car rental at airports

8.45. This issue has emerged as one of considerable significance for competition in the car rental market, and one on which we wish to make some comment. Europcar told us that a major reason for its bid for GD's rental business was that it saw this as the best way of establishing itself at Heathrow Airport as an immediately effective competitor to Hertz and Avis, although it attached considerable importance also to GD's strength in the United Kingdom national market. Europcar's international strength had been built up on the basis of the growth of its airports business, and most of its acquisitions had been made with that as the main objective. It considered that its failure to establish itself in the United Kingdom was due primarily to its inability to obtain a concession at Heathrow, that is to operate with facilities inside the airport, to link into its large European airport network. It had bid for a concession at Heathrow but without success.

8.46. In order to obtain a better understanding of the background to what Europcar had told us, we asked the British Airports Authority (BAA) for more information about its policy and arrangements for awarding concessions to car rental companies, in particular at Heathrow. The main details are set out in Appendix 15.

8.47. It has not been necessary for the purpose of this reference to examine in depth BAA's policy and arrangements for awarding such concessions or the corresponding arrangements of other airport authorities in the United Kingdom or abroad. Our interest is confined to competition at airports as one important factor in the car rental market as a whole and to what is relevant to competition in that market.

8.48. A very large volume of rental business takes place at Heathrow. In 1979 it amounted to nearly 10 per cent of the United Kingdom car rental market's turnover of about £150 million, and it was a considerably higher proportion of turnover in the international sector of the market. How the car rental companies are able to compete for that business is therefore very important. As the car rental market has grown so has the number of concessions for facilities within Heathrow, from one to two, and, with GD, to three in 1974. We note that BAA has now invited tenders for a fourth concession at Heathrow for which space will be made available within the airport for desks (reception areas), but not for the parking, cleaning or servicing of cars (which the three existing concessionaires, Hertz, Avis and GD all have). It will decide in December 1980 whether to award this additional concession.

8.49. We consider that the way in which BAA has operated its policy and arrangements for car rental concessions has contributed to the proposed merger situation. Europcar now sees the acquisition of GD's rental business

as the best way of getting quickly into a fully competitive position at Heathrow, a fact that we must acknowledge. Thus a situation has been created which has inhibited competition, which might otherwise have been stimulated if Europcar had become a further main competitor at Heathrow and in the United Kingdom as a whole. We realise that if BAA had allowed more concessions to car rental companies at Heathrow (and elsewhere) there might well have been implications for its revenue and in other respects. But we think that there would have been benefit from the point of view of competition in the car rental market if more concessions had been allowed at Heathrow.

Other issues of public interest

8.50. No other issues of public interest are considered to arise from the merger.

Summary

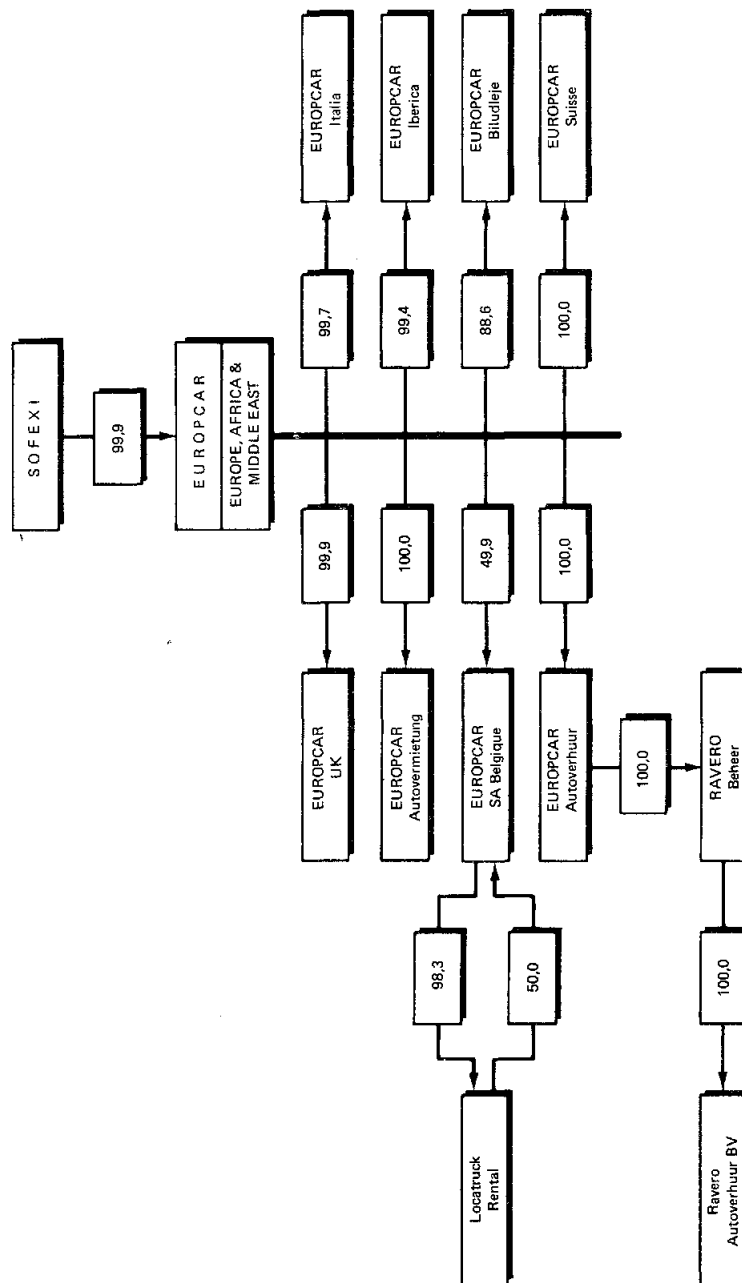
8.51. Our conclusions are as follows. There is some possibility of anti-competitive conduct in the supply of cars in the United Kingdom as a result of the merger, but the scale would be too small to have a significant impact on competition in that market. Competition for international rental reservations in particular may be expected to increase and the availability of Europcar's larger financial resources may be expected to facilitate the development of GD/Europcar as a still stronger competitor than GD in the United Kingdom national market, as well as in the international rental market. These advantages in prospect from the merger will be sufficient for Europcar and Renault to ensure that the efficiency and competitiveness of GD/Europcar are maintained. Nevertheless, to guard against one particular anti-competitive practice that might be pursued, we have sought and obtained from Renault the assurance set out in paragraph 8.36. Renault's main competitors in the United Kingdom car market are unlikely to enter the car rental market directly if the merger goes ahead. The merger will not be against the interests of GD's employees. Though some slight loss of sales by domestic car manufacturers may occur, it is not possible to point to any specific impact on employment resulting from this. There is an enhanced prospect of the further expansion of GD's present network, which could provide a considerable number of new jobs.

8.52. We conclude that if enterprises carried on by or under the control of Godfrey Davis Limited cease to be distinct from enterprises carried on by or under the control of Compagnie Internationale Europcar, that fact may be expected not to operate against the public interest.

C J M HARDIE (*Chairman*)
J D ECCLES
P GOLDMAN
V M MARSHALL
R STEPHEN
J GILL (*Secretary*)

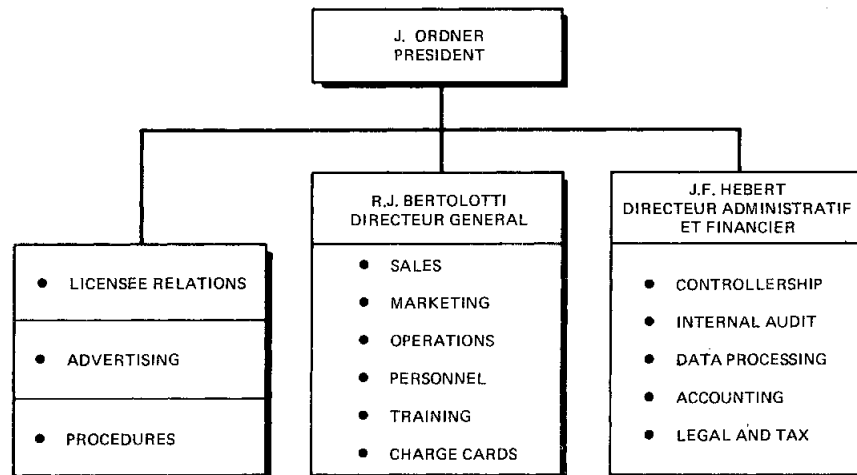
1 December 1980

APPENDIX 1
(referred to in paragraph 4.12)
Compagnie Internationale Europcar: Group structure



APPENDIX 2
(referred to in paragraph 4.13)

**Compagnie Internationale Europcar:
Group management structure**



APPENDIX 3
(referred to in paragraph 4.17)

**Compagnie Internationale Europcar:
Consolidated financial information—Capital employed**

		At 31 December			
Historic cost basis	1976	1977	1978	1979	
		French francs in millions			
<i>Assets employed</i>					
Fixed assets					
Fleet	88.7	99.3	129.2	150.3	
Other	9.5	10.9	13.3	14.6	
	<hr/> 98.2	<hr/> 110.2	<hr/> 142.5	<hr/> 164.9	
Investments	0.4	0.4	0.4	0.4	
Net current assets	26.5	30.8	51.7	57.9	
	<hr/> 125.1	<hr/> 141.4	<hr/> 194.6	<hr/> 223.2	
<i>Financed by:</i>					
Shareholders' equity	19.2	16.3	24.3	33.8	
Long term loans	0.4	0.3	45.4	45.2	
Bank overdrafts and loans	109.5	129.1	129.3	148.6	
	<hr/> 129.1	<hr/> 145.7	<hr/> 199.0	<hr/> 227.6	
Financing total net assets	(4.0)	(4.3)	(4.4)	(4.4)	
Intangible assets	<hr/> 125.1	<hr/> 141.4	<hr/> 194.6	<hr/> 223.2	
Financing net tangible assets					
Shareholders' equity as a percentage of total net assets	14.9%	11.2%	12.2%	14.9%	

APPENDIX 4

(referred to in paragraphs 4.17 and 4.19)

Compagnie Internationale Europcar: Consolidated financial information—Profitability and financial ratios

	1976	Years ended 31 December		
		1977	1978	1979
		French francs in millions		
Turnover	153·7	192·8	240·1	295·3
Profit/(loss) before tax				
before charging interest	4·6	10·8	24·6	31·2
after charging interest	(5·2)	(2·9)	8·8	10·8
		Percentages		
Profit/(loss) before interest as a return on				
Turnover	3·0	5·6	10·2	10·6
Capital employed	4·3	8·1	14·6	14·9
Profit/(loss) after interest as a return on				
Shareholders' equity (average)	(24·0)	(16·3)	43·3	37·1

Note: Profit, at historic cost, is before charging tax.

APPENDIX 5

(referred to in paragraphs 4.17 and 4.20)

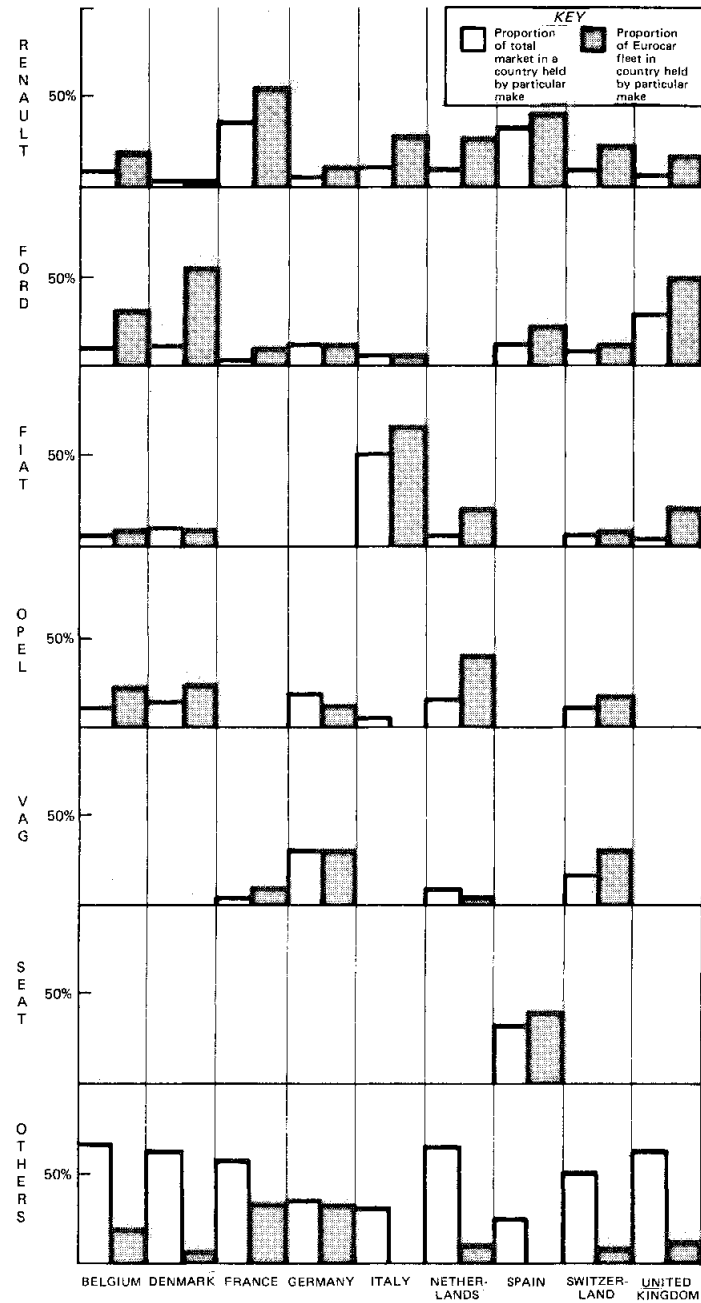
Compagnie Internationale Europcar: Consolidated financial information—Statement of source and application of funds

	Years ended 31 December				Cumulative 1976-1979
	1976	1977	1978	1979	
	French francs in millions				
<i>Source of funds</i>					
Profit/(loss) before tax	(5.2)	(2.9)	8.8	10.8	11.5
Depreciation	33.9	38.7	46.5	53.1	172.2
Other	3.2	(0.2)	(1.7)	(2.5)	(1.2)
	<u>31.9</u>	<u>35.6</u>	<u>53.6</u>	<u>61.4</u>	<u>182.5</u>
<i>Application of funds</i>					
Fixed assets net	72.2	50.7	77.8	74.4	275.1
Intangible assets	0.4	0.3	0.1	—	0.8
Increase in working capital	10.6	4.2	21.0	6.1	41.9
	<u>83.2</u>	<u>55.2</u>	<u>98.9</u>	<u>80.5</u>	<u>317.8</u>
<i>Surplus/(deficit)</i>	<u>(51.3)</u>	<u>(19.6)</u>	<u>(45.3)</u>	<u>(19.1)</u>	<u>(135.3)</u>
<i>Financed by:</i>					
Long term debt	—	—	45.1	(0.2)	44.9
Bank borrowings	51.3	19.6	0.2	19.3	90.4
	<u>51.3</u>	<u>19.6</u>	<u>45.3</u>	<u>19.1</u>	<u>135.3</u>

APPENDIX 6

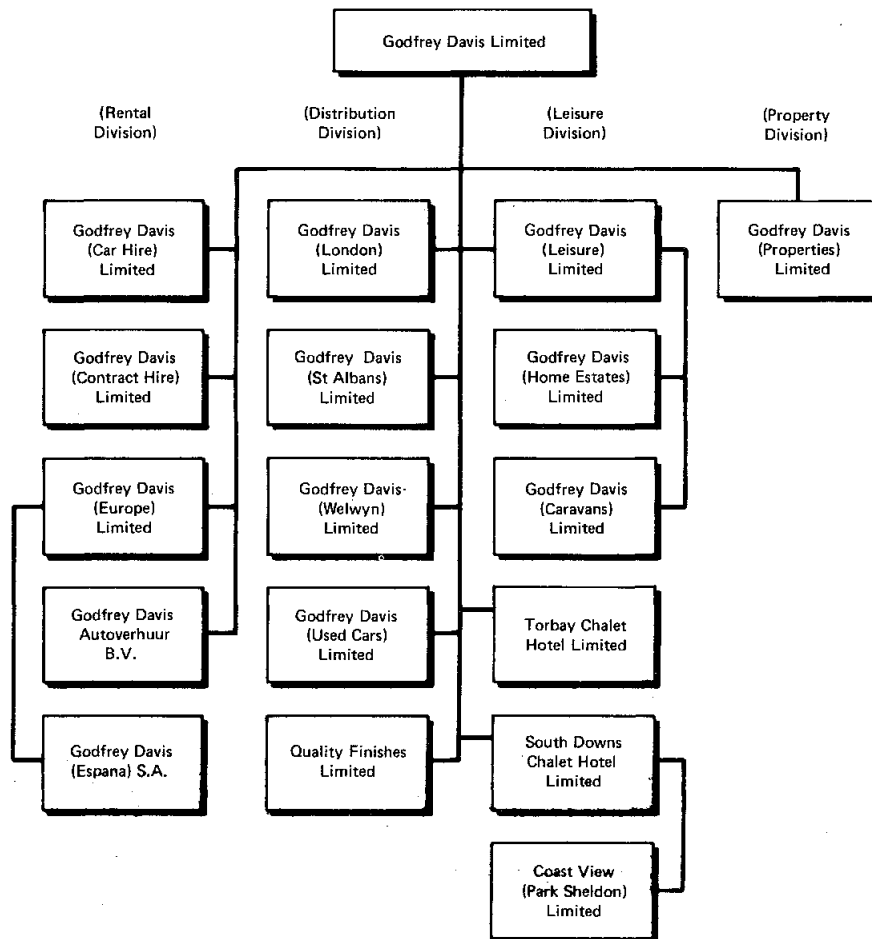
(referred to in paragraph 4.27, footnote to paragraph 6.14 and paragraph 8.13)

Compagnie Internationale Europcar: Fleet composition and market share of makes of vehicle

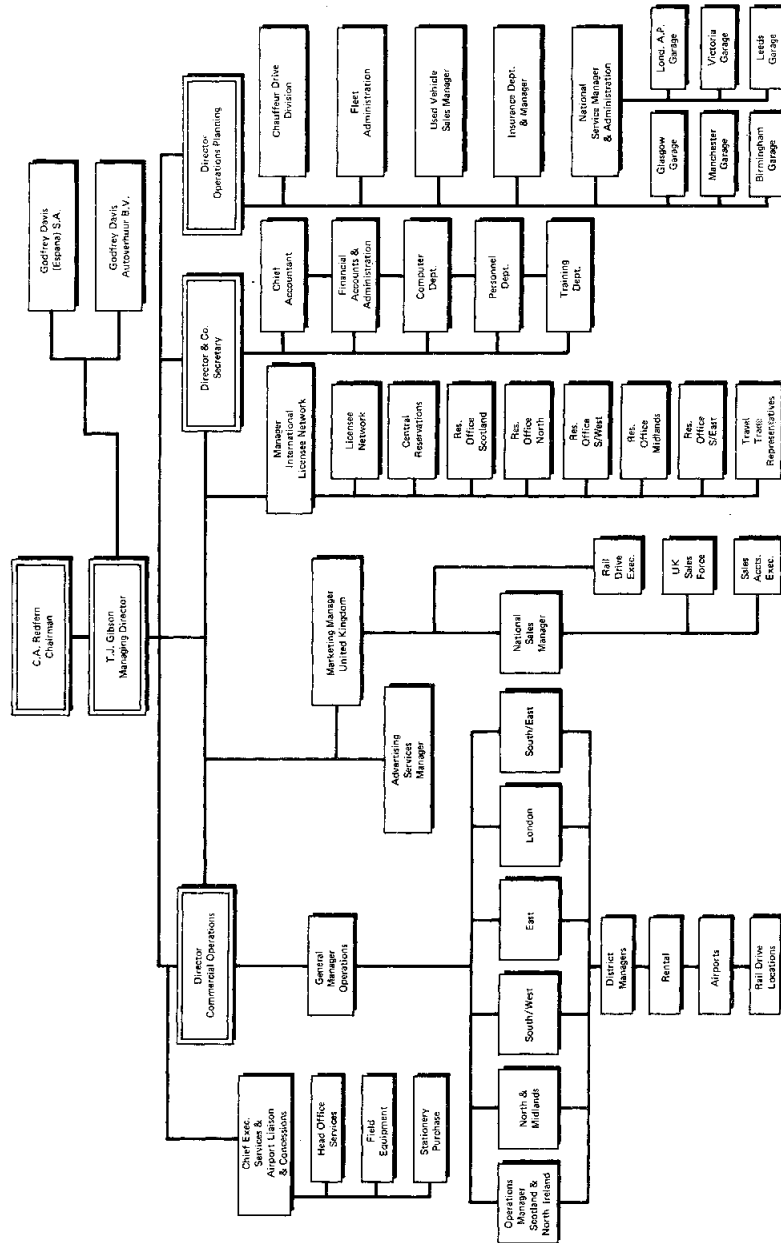


APPENDIX 7
(referred to in paragraph 5.3)

Godfrey Davis Limited: Organisation of the group



APPENDIX 8
(referred to in paragraph 5.6)
Godfrey Davis (Car Hire) Limited: Organisation



APPENDIX 9
(referred to in paragraph 5.20)

**Godfrey Davis Limited and its subsidiary companies:
Capital employed**

<i>Historic cost basis</i>	1975	1976	<i>At 31 March</i>		1979	1980
			1977	1978		
			<i>£ million</i>			
<i>Assets employed</i>						
Fixed assets						
Property—freehold	4.0	4.3	4.4	4.8	10.0	11.1
leasehold	0.6	0.6	0.5	0.5	0.3	0.4
Rental fleet	11.4	13.1	8.9	12.4	21.3	23.9
Plant and equipment	1.0	1.0	0.8	1.0	1.3	1.9
	<u>17.0</u>	<u>19.0</u>	<u>14.6</u>	<u>18.7</u>	<u>32.9</u>	<u>37.3</u>
Deposit with Ford Motor Co	*	1.1	1.6	2.9	2.4	4.1
Net current assets	3.3	2.8	5.6	7.7	4.8	6.4
	<u>20.3</u>	<u>22.9</u>	<u>21.8</u>	<u>29.3</u>	<u>40.1</u>	<u>47.8</u>
<i>Financed by:</i>						
Share capital	3.4	3.0	3.0	3.0	3.0	3.8
Reserves	3.9	8.2	8.5	12.5	19.1	22.8
Dividends payable	0.2	0.3	0.3	0.3	0.5	0.5
Deferred tax	4.1	0.3	0.4	—	—	—
	<u>11.6</u>	<u>11.8</u>	<u>12.2</u>	<u>15.8</u>	<u>22.6</u>	<u>27.1</u>
Shareholders' funds	11.6	11.8	12.2	15.8	22.6	27.1
Minority interests	0.1	0.1	0.1	—	—	—
Secured loans	3.3	4.8	4.5	6.4	6.8	11.3
Secured loan Ford Motor Credit Co	†	1.1	1.6	2.9	2.4	4.1
Bank overdrafts and advances	5.3	5.1	3.4	4.2	8.3	5.3
	<u>20.3</u>	<u>22.9</u>	<u>21.8</u>	<u>29.3</u>	<u>40.1</u>	<u>47.8</u>
<i>Current cost accounting basis</i>						
Net assets				30.9	41.7	51.2
Ratio of borrowings to shareholders' funds (Historic cost)	0.74	0.92	0.78	0.85	0.77	0.76

* Included in debtors.

† Included in creditors.

APPENDIX 10
(referred to in paragraph 5.20)

**Godfrey Davis Limited and its subsidiary companies:
Profitability and financial ratios**

	<i>Years ended 31 March</i>					
	1975	1976	1977	1978	1979	1980
	<i>£ million</i>					
<i>Turnover</i>	40.6	47.9	60.0	75.9	88.7	112.3
<i>Profit before charging interest</i>						
Historic cost basis	2.2	2.4	3.8	4.7	6.0	8.2
CCA basis	—	—	—	3.2	4.5	5.4
<i>Profit after charging interest</i>						
Historic cost basis	1.2	1.2	2.4	3.5	4.6	5.3
CCA basis	—	—	—	2.8	3.8	3.9
	<i>Percentages</i>					
<i>Profit before interest as return on:</i>						
<i>Turnover</i>						
Historic cost basis	5.4	5.0	6.3	6.2	6.8	7.3
CCA basis	—	—	—	4.2	5.1	4.8
<i>Capital employed</i>						
Historic cost basis	10.7	10.6	17.5	16.1	15.1	17.1
CCA basis	—	—	—	10.3	10.8	10.5
<i>Profit after interest as return on shareholders' funds</i>						
Historic cost basis	10.1	10.4	20.0	22.3	20.3	19.6
CCA basis	—	—	—	15.8	15.9	12.9

Note: Profit is before charging tax.

APPENDIX 11
(referred to in paragraphs 5.22 and 7.8)

**Godfrey Davis Limited and its subsidiary companies:
Statement of source and application of funds**

<i>Historic cost basis</i>	<i>Years to 31 March</i>						<i>Cumulative 1975-1980</i>
	<i>1975</i>	<i>1976</i>	<i>1977</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>	
	<i>£ million</i>						
<i>Source of funds</i>							
Profit before tax	1.2	1.2	2.4	3.5	4.6	5.3	18.2
Depreciation	4.4	5.0	5.3	4.8	6.4	8.3	34.2
	<u>5.6</u>	<u>6.2</u>	<u>7.7</u>	<u>8.3</u>	<u>11.0</u>	<u>13.6</u>	<u>52.4</u>
<i>Application of funds</i>							
Fleet							
Purchases	11.6	12.0	8.4	12.9	22.3	26.2	93.4
less sales	4.9	5.8	7.9	6.1	7.5	15.8	48.0
	<u>6.7</u>	<u>6.2</u>	<u>0.5</u>	<u>6.8</u>	<u>14.8</u>	<u>10.4</u>	<u>45.4</u>
Other fixed assets	0.9	1.1	0.9	1.3	3.4	3.1	10.7
Tax	0.2	0.1	0.2	0.2	0.2	0.2	1.1
Dividends	0.3	0.3	0.3	0.4	0.5	0.8	2.6
Working capital	0.7	(0.2)	1.0	1.0	0.3	1.2	4.0
Other	(0.3)	0.1	0.6	0.2	(0.5)	(0.8)	(0.7)
	<u>8.5</u>	<u>7.6</u>	<u>3.5</u>	<u>9.9</u>	<u>18.7</u>	<u>14.9</u>	<u>63.1</u>
<i>Surplus/(deficit)</i>	<u>(2.9)</u>	<u>(1.4)</u>	<u>4.2</u>	<u>(1.6)</u>	<u>(7.7)</u>	<u>(1.3)</u>	<u>(10.7)</u>
<i>Financed by:</i>							
Increase/(decrease) in loans	0.5	1.6	(0.2)	1.8	0.4	4.5	8.6
Increase/(decrease) in bank overdrafts	2.4	(0.2)	(4.0)	(0.2)	7.3	(3.2)	2.1
	<u>2.9</u>	<u>1.4</u>	<u>(4.2)</u>	<u>1.6</u>	<u>7.7</u>	<u>1.3</u>	<u>10.7</u>

APPENDIX 12
(referred to in paragraphs 5.23 and 7.9)

Godfrey Davis (Car Hire) Limited: Capital employed

		<i>At 31 March</i>	
<i>Historic cost basis</i>	<i>1978</i>	<i>1979</i>	<i>1980</i>
		<i>£ million</i>	
<i>Assets employed</i>			
Fixed assets			
Leasehold properties	0.1	0.1	0.1
Rental fleet	11.5	19.3	19.8
Plant and equipment	0.2	0.2	0.3
	<u>11.8</u>	<u>19.6</u>	<u>20.2</u>
Net current assets	(0.2)	0.1	0.2
	<u>11.6</u>	<u>19.7</u>	<u>20.4</u>
<i>Financed by:</i>			
Share capital & reserves	6.2	7.8	6.3
Dividends payable	0.4	0.5	—
	<u>6.6</u>	<u>8.3</u>	<u>6.3</u>
Shareholders' funds	6.6	8.3	6.3
Secured loans	2.5	4.0	10.0
Bank overdrafts and advances	3.8	7.3	4.0
Amounts due to/(from) parent company and fellow subsidiaries	(1.3)	0.1	0.1
	<u>11.6</u>	<u>19.7</u>	<u>20.4</u>
<i>Current cost accounting basis</i>			
Net assets	<u>12.4</u>	<u>20.9</u>	<u>23.5</u>
Ratio of borrowings to shareholders' funds (Historic cost)	<u>0.76</u>	<u>1.37</u>	<u>2.24*</u>

* The secured loans include £4.6 million borrowed to meet the special inter-company dividend (see paragraph 2.2) which, as part of the acquisition agreement, was paid to the exclusion of any other dividend. Had Car Hire paid in 1980 the same dividend as for the previous year (£0.5 million), borrowings would be reduced to £10.0 million (and shareholders' funds increased by £4.1 million to £10.4 million) and the ratio of borrowings to shareholders' funds would be 0.96.

APPENDIX 13
(referred to in paragraph 5.23)

**Godfrey Davis (Car Hire) Limited:
Profitability and financial ratios**

	<i>Years ended 31 March</i>		
	<i>1978</i>	<i>1979 £ million</i>	<i>1980</i>
<i>Turnover</i>	17.0	20.5	23.3
<i>Profit before charging interest</i>			
Historic cost basis	1.8	2.3	3.5
CCA basis	1.4	1.6	2.4
<i>Profit after charging interest</i>			
Historic cost basis	1.6	1.8	2.3
CCA basis	1.4	1.5	1.7
	<i>Percentages</i>		
<i>Profit before interest as return on:</i>			
Turnover			
Historic cost basis	10.6	11.2	15.0
CCA basis	8.2	7.8	10.3
Capital employed			
Historic cost basis	15.9	11.6	17.1
CCA basis	11.7	7.9	10.2
<i>Profit after interest as return on shareholders' funds</i>			
Historic cost basis	24.2	21.4	36.9*
CCA basis	18.8	16.0	18.4*

Note: Profit is before charging tax.

* A special inter-company dividend of £4.6 million was paid by Car Hire prior to the group's reorganisation as a preliminary to the proposed merger (see paragraph 2.2); if this is added back to shareholders' funds the returns become 21.4 per cent on an historic cost basis and 12.4 per cent on a current cost accounting basis.

APPENDIX 14

(referred to in paragraph 5.23)

**Godfrey Davis (Car Hire) Limited:
Statement of source and application of funds**

	Years ended 31 March			Cumulative 1978-1980
	1978	1979	1980	
	£ million			
<i>Source of funds</i>				
Profit before tax	1.6	1.8	2.3	5.7
Depreciation	4.0	5.5	6.9	16.4
	<u>5.6</u>	<u>7.3</u>	<u>9.2</u>	<u>22.1</u>
<i>Application of funds</i>				
Fleet—purchases	11.9	20.2	21.3	53.4
sales	5.0	7.1	14.0	26.1
	<u>6.9</u>	<u>13.1</u>	<u>7.3</u>	<u>27.3</u>
Purchase of fixed assets excluding fleet	0.1	0.1	0.2	0.4
Tax	(0.5)	(0.4)	(0.4)	(1.3)
Dividends	1.0	0.4	5.0	6.4
Increase/(decrease) in working capital	(0.5)	0.5	(0.3)	(0.3)
	<u>7.0</u>	<u>13.7</u>	<u>11.8</u>	<u>32.5</u>
Surplus/(deficit)	<u>(1.4)</u>	<u>(6.4)</u>	<u>(2.6)</u>	<u>(10.4)</u>
<i>Financed by:</i>				
Increase/(decrease) in loans	—	1.5	6.0	7.5
Increase/(decrease) in bank overdrafts	(0.6)	3.5	(3.3)	(0.4)
Increase/(decrease) in amount due to parent company on current account	2.0	1.4	(0.1)	3.3
	<u>1.4</u>	<u>6.4</u>	<u>2.6</u>	<u>10.4</u>

APPENDIX 15
(referred to in paragraph 8.46)

British Airports Authority: Policy and arrangements for car hire concessions at airports

The British Airports Authority's (BAA's) policy and arrangements for concessions

1. BAA has told us that its general policy is founded on two main considerations; first, to obtain maximum income from car hire concessionaires; and secondly to ensure that the selected concessionaires can provide the standard of service BAA thinks airline passengers require. BAA therefore looks for large companies, with strong overseas connections and a reservation service worldwide. Within the United Kingdom, the main requirement is for adequate one-way facilities (for that reason BAA does not regard franchise operations as generally suitable).

2. BAA invites sealed tenders from selected car hire operators. It invites offers of a percentage of revenue, accompanied by a minimum guaranteed fee. The successful bidders get choice of location on the airport in the order of their bids. No specific requirements for minimum levels of bids or guarantees are put to applicants. No reasons are given to anyone whose bid is turned down. The arrangements mean that the different concessionaires pay different percentages and guarantee different minima.

3. These arrangements have produced currently three concessionaires at Heathrow, namely Hertz, Avis and GD. The facilities provided include a desk in each terminal with a reception office, car wash and storage area within the airport perimeter. The BAA has commented that it is substantially constrained by the Landlord and Tenant Act which dictates the provision of facilities provided by the Authority rather than by the concessionaire. (Concessionaires have not operated within the perimeter always; GD for example started outside.)

A new development

4. BAA is now inviting tenders for a fourth concession at Heathrow, but for desks only within the airport, though it expects a fourth concessionaire to have its facilities near the airport. It will apply the same criteria as to the other three concessionaires as regards international and national capabilities.

5. We asked BAA why it had not gone further and offered to provide a desk for a fifth or more concessionaires. It gave several reasons. First, the pressure on space in the terminals is such that BAA does not want to go beyond a fourth concession. Secondly, it is anxious to avoid a proliferation of courtesy coaches to carry car hire clients from the terminals. There was a wider reason, that BAA is not convinced that more than four concessionaires would be justified to meet passengers' needs, or that it would increase its income. Its decision on a fourth concessionaire will be made in December 1980.

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