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**BEHIND THE SCENES
OF THE RENAULT-NISSAN ALLIANCE**

by

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Overview

Why and in what way did Renault embark on an alliance with Nissan ? Georges Douin, who was closely involved in this venture, explains how the two companies tried hard to achieve a delicate balance. This did not result in a merger but in a real partnership, thereby allowing both Nissan to get back on its feet and Renault to develop further its activities abroad. This approach was made easier because the two companies have similar products and methods of know-how. However, will the alliance, which brings with it a policy of industrial convergence and economic efficiency, be able to preserve the identity of each individual company on a permanent basis?

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TALK : Georges DOUIN

I joined Renault in 1967 and spent my entire professional life there, mostly in the engineering department. In 1992, when Louis Schweitzer became President, I was appointed to the executive committee and was put in charge of managing international operations. It was in this role that I became involved in the Renault-Nissan project from the very beginning, back in 1998.

The reasons behind the alliance

At that time, Renault had recovered from its failed merger with Volvo in 1993. Its financial situation was satisfactory, with an excellent cost structure thanks in particular to the initiative of Carlos Ghosn, who had joined the company in 1996. The industrial structure was healthy and efficient, with no outstanding debts. Renault was being carried along by a new product, the Scenic, brought out in 1996, which had helped create a new market in Europe and had made the company more prominent there. Since the fall of the Berlin Wall, progress with regard to the penetration of the Northern European markets, especially the German market, had been considerable.

We were ready with new and ambitious plans for international growth. Only 15 % of our sales occurred outside Western Europe. We had two main markets in the rest of the World, Argentina and Turkey, but we had no significant presence in the American and Asian markets. It was essential that we should infiltrate the US market again since we had failed there on two successive occasions. On the other hand, we had to have a presence in the Asian market. However, it was difficult to re-establish ourselves in Asia alone since we did not have the same facilities as General Motors, which was capable of carrying out extremely strong lobbying.

Therefore, we looked for a partner. We thought firstly of the Koreans. Then, because of the difficulties facing the Japanese constructors, it seemed possible to us to do business directly with any one of them.

Nissan's strengths and weaknesses

We started to look at the strengths and weaknesses of the different Japanese manufacturers. Among them, Nissan, which was often cited as the heavyweight of the Japanese car manufacturers, had a certain number of strong points. Most of its engineers came from the University of Tokyo, the Japanese equivalent of Oxbridge or Harvard. Its extraordinary performances in terms of industrial quality were a bench-mark in this area. Finally, Nissan was the most international of all the Japanese manufacturers, and was well established in Japan, Europe and the US. Moreover, in the US, Nissan seemed to us to be very promising in terms of future development, contrary to Mitsubishi, whose image was tarnished by product reliability problems and sexual harassment in the company.

Nissan, however, had its weaknesses. Even though the company was healthy, it was not focussed on the notion of profitability, and hence had catastrophic financial results. At the Tokyo Salon in 1995, I had been very impressed by the abundance of new Nissan products and I could not understand how such a wide range of variety was possible compared with Renault where our ambitions were always cut short by cost-consciousness. When I asked someone in charge at Nissan why there was such variety, he replied without hesitation « *It's very simple : we are losing money on most of these products !* ». The hierarchical and organisational structure had become top-heavy and conservative and it seemed impossible to go against what was inevitable.

An exceptional complementary relationship

With further analysis, we realised that there was an almost miraculous complementary relationship between the two companies, both of which produced slightly more than two million vehicles of all kinds.

As far as the products were concerned, Renault is essentially a manufacturer of medium-sized cars with the Mégane representing its core business, whereas Nissan has developed its segment of bigger cars to a greater extent. Renault and Peugeot produce a maximum of two hundred V6 engines per day in their joint factory, whereas in the same time Nissan can produce two thousand such engines. Because of its presence in Asia and in the US, Nissan also produces models which are much less widespread in Europe, such as its pick-up trucks and its spin-off 4-by-4s. On the other hand, Renault produces more commercial vehicles than Nissan.

This complementary relationship was also noticeable in terms of organisation and know-how. Renault places emphasis on cost management, global strategy for the management of platforms and purchases, products and innovative styles ; Nissan concentrates more on research and advanced technologies, factory productivity and quality control.

Are the French to be taken seriously ?

In order for this alliance to succeed, we had to alter our poor image. France is known for its luxury products, its gastronomy, and its art of living, but in terms of industrial strength, it is a long way behind its German neighbour. Furthermore, the French are thought to be arrogant, not very serious and volatile.

In order to appear credible to Nissan, we had to prove ourselves. For nine months, starting from the first meeting between the two company presidents which took place in July 1998, two teams of about one hundred people from each company conducted a very thorough in-depth study of twenty areas common to both companies in order to define the potential economic developments in terms of added value. Three years after the signing of the Alliance, we are still on the path which had been drawn up at this stage, with only minor exceptions.

Despite this diligent work, the negotiations might never have taken place, because during this time Daimler Chrysler, which was in the process of preparing a joint-venture with Nissan in its truck division, was planning an operation of an even greater scale. We had to agree to be in competition with this group, even though this was contrary to the initial undertaking. However, Daimler Chrysler which presented a potential threat for us finally withdrew. The Daimler-Chrysler alliance itself was still too recent, difficulties came to light, and the Daimler-Chrysler board of directors did not agree to a *ménage à trois* since even a *ménage à deux* did not work well.

Then Nissan, under pressure from its creditors to take a decision by the end of the tax year, signed the agreement which had been prepared months before with Renault.

A dual nationality group and not a merger

The clear-cut aim envisaged by Louis Schweitzer was the construction of a group with dual nationality and certainly not a merger. This meant establishing a subtle balance between the two companies. This balance was guaranteed by the Alliance charter, which is a symbol of support for values which are held in common such as ambition and the desire to succeed, performance, mutual trust and respect, balance and loyalty.

At Renault, following the failure of the merger with Volvo, we were extremely careful with this new situation. Besides, the desire to find a balance in this partnership was easier to put into practice than in the dealings with Volvo, notably because of the different situation as far as the two engineering bodies were concerned. The Renault engineers had never considered

Volvo engineering to be superior to their own, especially as it was four times smaller. On the other hand, they agreed that Nissan engineering was of world class quality.

When the agreement was signed, Renault bought 37 % of Nissan capital, but each of the companies kept their own autonomy, their own responsibility, their own board of directors, shareholders, clients, and so on. At their monthly meeting, the two executive committees had to make decisions by mutual consent. These decisions were prepared by a co-ordination team and a secretariat in charge of planning, economic assessment, and communication. The main tasks were undertaken by twenty work groups, of which eleven were technical and nine were functional support for everything to do with legal, financial or computer problems.

The Nissan Revival Plan

Immediately after the signing, Nissan began a recovery plan with very precise aims. In order for this project to be successful, we contributed five billion dollars. This gave the Nissan bankers new-found confidence and enabled Nissan to renegotiate its debt. We sent approximately thirty hand-picked executives to Japan, headed by Carlos Ghosn. These were high-flying executives who had volunteered, and they were asked to be personally involved. Carlos Ghosn had said that if the project failed, they would all resign. This made their involvement and their confidence in the operation credible.

The changes put into operation really changed the local ways of doing things.

Frequently in Japan, a board of directors does not exist as such. It is part of the executive committee which, in Nissan's case, had thirty-eight members. It is easy to imagine that it is difficult to take brave decisions when there are so many people on a committee. Today, the executive committee has just ten members.

In addition, Nissan had one thousand three hundred subsidiaries. One must not forget that in Japan, it is unthinkable to have a boss who is younger than oneself. When a senior executive reaches a certain age, he is often given a subsidiary to manage, even when he is not really in a position to do so. Of the one thousand three hundred subsidiaries, only five were considered to be strategic. Young people have taken a more important place in the company, not only men but also women, who in Japan have barely the right to be secretaries and only until they are twenty-five. The seniority bonuses were replaced by individual bonuses and a stock option system was put into place.

For years, Nissan wore itself out trying to compete with Toyota in terms of technology and diversity. Whereas I am capable of citing from memory the Renault range in ten minutes, no single Japanese engineer would be able to do the same for Nissan in less than half-an-hour, and even if he were able to do so, he would have to consult papers because he could not remember all the models. Nissan had forty platforms and eighty different models.

Finally, the distribution system, which relied on competitor networks, was not very efficient and industrial commitment in Japan was second-rate since the factories were about 50 % over capacity.

The measures taken to put the situation right were brutal, but efficient. Purchasing costs were cut by 20 % : five factories were closed and twenty-one thousand people were laid off. Thanks to the strategy carried out by Carlos Ghosn from 2000 onwards, Nissan was able to show a balance in operating costs again and recorded positive results. In the first quarter of 2001, the consolidated operational profit margin was 6.3 % of turnover. The debt, which had been of the order of one thousand four hundred billion yens had been cut in half. At the same time, Nissan succeeded in launching quickly new models (thirteen new products were launched during the financial year of 2002), and creating a new growth process.

To fend off rumours that Renault was planning to empty the company of its know-how, Carlos Ghosn invested heavily in research and development. He launched an important research programme for a fuel cell (eight hundred million dollars), much advanced by

comparison with the rest of Europe, and recruited a new designer who made the new products more attractive than before.

Currently, Carlos Ghosn is launching an even more ambitious second programme, called Plan 180, which concentrates more on growth than the former one. "180" refers to 1 million cars sold additionally, an operational margin of 8 %, and zero debt.

Industrial convergence and economic efficiency

The past three years since the signing of the contract have been devoted to the implementation of the plan defined at the start, whose two main aims were "industrial convergence and economic efficiency".

Ten joint platforms

The first element of this plan was the convergence towards a series of ten joint platforms which would produce all the ranges of both companies.

A platform consists of the chassis and all the mechanical pieces which can be fixed onto it such as the engine, the axle assembly, the seat frames, the gear box levers, the fuel tank, and so on. These components are not necessarily identical and their sizes can even vary a great deal but they can be made on the lines for bodywork, stamping, or even assembly. Robots are programmed for certain welding points, which respond to the same logical process. A platform is therefore defined as a combination of product, engineering and industrial process, which enables the convenient construction of a group of products.

Obviously, a platform is very expensive. It is only changed when a product is renewed. As it happened, Nissan was preparing from 1999 a new small car for 2002, and so the company seized the opportunity to adopt one of our plans. This brave decision was very important since it happened rapidly and contributed to the success of the Renault-Nissan alliance. The platform in question will also be used by Renault from 2005, when the Clio and the Twingo will be renewed, but from 2002, it will be Renault's turn to take the initiative, with the adoption of a second common platform, for the renewal of the Mégane.

These two platforms alone will represent more than 50 % of the Renault-Nissan production. The peak of economic efficiency will therefore be reached between 2004 and 2005. We will have to be vigilant between 2005 and 2010, in order to ensure the convergence between the other platforms, three of which are reserved for commercial vehicles.

Engines

We have also committed ourselves to building together eight engine families and seven transmission families. The design of new engines is very costly and very long, and the first jointly manufactured engines will not come out until 2004 or 2005. In the meantime, we have started exchanging engines and we have also found that we complement each other in this sector. In order to develop in Europe, Nissan needed diesel engines : conversely we found a V6 engine which Nissan made and which was more powerful than the one we had developed, and which is very welcome with regard to the new model, the VelSatis.

Quality

Convergence in terms of quality was a tricky problem. One has to admit that in this area, Japan is superior to Europe. Japanese engines are already guaranteed for five years, whereas in Europe we are in the process of extending the guarantees to two years. The idea that Nissan might have a better image in terms of quality than Renault was unbearable in the same market, since that would end by Renault being some sort of Nissan sub-brand.

We therefore committed ourselves to a policy of "convergence quality", which is based on the elaboration of the process of identical development and of the markers of validation enabling

the establishment of demonstrations of common reliability. This presupposes the convergence of all the information systems which in itself is an extremely difficult operation.

The alliance also allows us to rely on a detailed benchmark in order to study Nissan's industrial performances, in terms of organisation, training, and quality control. Nissan has been working on the Nissan Production Way for a long time. Renault's System of Production which we have just perfected, draws most of its inspiration from this. This step is all the more necessary since we have started to produce vehicles of one brand in factories producing the other brand, which implies that we are able to accept vehicles according to agreed common quality standards.

Preserving the identity of each brand

The only area where there was to be no convergence whatsoever was the identity of the brand. We are extremely careful to differentiate our products as far as private vehicles are concerned. For commercial vehicles, this seemed less important, since our competitors also share the same products in order to lower the costs. Considering the fact that Nissan had done nothing concerning the renewal of this sector, we did not hesitate for long. In a few months, you will see the Master and Traffic models supplied with a Nissan radiator grille.

Managing a joint commercial presence

In Europe, our car dealer networks must maintain their widespread geographical representation throughout the country with independent showcases and show-rooms for each of the brands. On the other hand, we are creating a group of solid regional centres in order to share a certain number of functions, for example, to manage everything to do with spare parts, heavy bodywork, and so on.

Renault and Nissan will join forces on a national level in order to manage their joint commercial presence. This operation is already in place in Switzerland and Holland, and will be established in Germany next year. In Holland, for example, there is only one legal body left which manages the two brands. On the other hand, the two sales departments are kept distinct. By contrast, in France, Great Britain and Spain, where Nissan was already well established, the two brands will maintain separate legal identities.

In the rest of the World, this policy of joint management in the sales departments has already proved successful. For example, Renault has got off to a good start in Australia, where the Nissan network is well developed and sells our cars. In Korea, we had the opportunity to create a new company, Renault Samsung Motors, by buying the assets of a Samsung company for which Nissan had sold the licences. This new company allowed us to gain 8 % of the Korean market and 25 % of the market in question, in other words, more than seventy thousand vehicles in 2001, with just one car derived from the Nissan Maxima. Altogether in Asia, we have made spectacular progress since we have increased sales from eleven thousand vehicles in 2000 to eighty-five thousand in 2001.

We have also returned to Mexico which we left in 1986, and have launched the manufacture of Renault cars in Nissan factories, this in a record time of only eighteen months. In fact, it is a combined operation, with Nissan manufacturing a car derived from the Clio, aimed at a more working-class clientele. Today, our Mexican distribution network has thirty car dealerships of which twenty-five were already Nissan dealers. This rapid success had a very strong symbolic value in the implementation of the Alliance.

In MERCOSUR countries, where Renault was already established and had invested a billion dollars between 1996 and 1999, whereas no single Japanese manufacturer had set itself up, the opposite happened. We have a factory which produces the Renault Master as well as the Nissan pick-up truck and Renault dealers have been approached in order to distribute Nissan vehicles.

An initial assessment

In three years, we estimate that the earnings resulting from this merger amount to one billion five hundred million dollars. Of this sum, more than half (59 %) can be attributed to the savings made on purchases. Between 1997 and 2000, Renault substantially improved its productivity with its suppliers. On the other hand, one had to start from scratch with Nissan, and there were differences in costs of between 20 % and 30 % between the two companies in 1999. Because of this increased productivity, the proportionate distribution of these joint enterprises was made very largely in favour of Nissan until this time. However, with the implementation of new platforms and shared parts, the balance will progressively be restored.

As time goes on, the assessment of the earnings resulting from these joint enterprises becomes somewhat artificial, and the reference situation becomes increasingly outdated. This is why we are going to replace it with a new piloting system, called Alliance Scorecard, which is based on joint performance : each work group will have two different methods of assessment, one measuring volumes and the other costs, both of which will be compared with predetermined guidelines. For example, it is predicted that Nissan and Renault will have exchanged six hundred thousand engines by the year 2004. Each work group should regularly account for the progress of these programmes.

In summary, we have reached our objective, namely to take our place in the group of World leaders. Renault-Nissan is the sixth largest car manufacturer in the World, with five million vehicles and 9 % of the World market, which enables us to have satisfactory profitability targets.

Progressing to Stage Two

We can now go on to Stage Two of the Alliance, which should help the alliance become more durable and more efficient.

In Stage One, Renault controlled 37 % of the capital of Nissan. This created an imbalance between the two companies since Renault was more interested in the success of Nissan than Nissan was in Renault. In Stage Two, Nissan should have a 15 % stake in Renault. This will not make a perfect balance but nevertheless there will be greater shared interests than before.

This Stage Two will also be characterised by a greater interpenetration, since there will be in the future a Renault director at Nissan, and two Nissan directors (including Carlos Ghosn) at Renault.

Nissan also requested the partial withdrawal of the State from the capital of Renault. This happened in the first week of April since the State has just lowered its share from 37 % to 25 %.

Finally, we have created a strategic management company, Renault-Nissan BV, which is made up of eight people (four from each company), with a President who has a casting vote. This company was set up in the Netherlands for reasons essentially related to equity and international prominence. It has the power to put forward strategic proposals to ensure a perfect balance of decisions concerning the two companies, but does not have power over operational decisions. Each company keeps its own freedom of action.

Remaining careful

Despite these good results, we should still remain careful. France and Japan are ten thousand kilometres apart and the language barrier and difference in culture remain.

For example, the French are traditionally steeped in the abstract and love spending time thinking. One of my old bosses said that at Renault, when a decision had been made, most people considered that it was a good basis for discussion. This is the opposite of the Japanese, who, once a decision has been made, are extremely quick to implement it. This can be

explained, among other things, by the fact that management is very different, being predominantly from the top down in France, and from the bottom up in Japan. In Japan, once the decision has been taken, public opinion has already been won round.

Another difference is that we have started putting into practice the thirty-five-hour week whereas the Japanese still work regularly sixty-hour weeks. The Nissan research department is the only one I know where the canteen is open in the evenings.

The different economic situations of the two companies also sets them apart, even though the differences are starting to become less pronounced. Carlos Ghosn demanded that all the Nissan operations should be profitable in a short space of time, whereas Renault encourages a more long-term vision and invests in work sites which are profitable four or five years later.

Nevertheless, we are generally satisfied by the spirit with which this alliance was made. This was evident in the total absence of taboos (which enabled us to tackle any question), a significant pragmatism, the perpetual concern of trying to see what the other partner could positively offer, and the very strong desire to maintain a balance between the two companies. If Nissan were taken over by Renault, we would go back to the framework of a merger with all the inconveniences which this entails. If Renault were taken over by Nissan, it would be unbearable since Renault is at the basis of this operation and is the leading investor.

DISCUSSION

Blending in or preserving one's identity ?

Question : *You have firmly stressed the need for each brand to preserve its identity, and at the same time you have constantly spoken about industrial convergence and you are obviously very keen to promote a mix. Can such a position be tolerable for a long time ?*

Georges Douin : We make a very clear distinction between what should be held in common and what should stay separate. The design teams only communicate by means of the two design bosses, who check that their work is coherent but different. The two 'product' teams are also completely separate and each one fiercely defends the properties of its own brand when it feels that an idea has been taken from the other partner brand. On the other hand, I meet regularly with my counterpart in the 'product' team at Nissan. There is no question that each company would make a small 'working class' car for Brazil, for example, especially since the margins for this type of car are very small. We divide up the roles and if Renault makes a small car, Nissan will make a 4x4. Likewise, in engineering, if the platforms are pooled, everything to do with the bodywork or the seats and which consequently concerns design and identity, remains very separate.

As far as the construction of engines in common is concerned, experience has taught us to avoid sharing out the tasks equally. Nissan will be responsible for one engine and Renault for another. Each partner will explain his expectations and will assign two engineers to show and check that the markers of the validation programme are adhered to. We have learnt to avoid confrontation as well as useless and costly rivalries.

The challenge of shared platforms

Q. : *The achievement of a platform is in itself difficult since one has to establish a common complex for different vehicles, with common dimensions which are greater or smaller according to the parts. However, it seems to me that it is far more complex in the framework of an alliance between two manufacturers, who target different services for different markets. For example, we know that Renault puts security first while Nissan puts reliability first. Can we expect a gradual harmonisation of services because of shared platforms ? In addition, the existence of platforms presupposes sharing the methods of organisation of design. Yet, Renault has become number one in project management, whereas Nissan attaches a great deal of importance to the technical side. Are we not heading towards a form of harmonisation*

of organisations which will perhaps not endanger the identity of the brands but will certainly put at risk the operational autonomy of the two manufacturers ?

G. D. : Our profession becomes exponentially more complicated from one car to another, but the development of methods accompanies this process of making things more complex. I was one of one thousand five hundred engineers in R&D when I started to work for Renault : today, we are twelve thousand. The methods of calculation have also increased dramatically: whereas eighty prototypes had to be made before, today we make less than thirty since the calculations of simulation allow us to get rid of the remainder. Finally, factories have become very flexible. Launching a new engine twenty years ago was a huge operation : one had to construct a line of crankcases of cylinder heads eight hundred metres long and there was no question of changing it, even for a camshaft. Today, all the cylinder heads are made in centres using techniques of digital manufacture which can just as easily produce cylinder heads of three, four or six cylinders.

Our project to achieve 75 % “commonality” between Renault and Nissan in Europe and 50 % in Japan is ambitious. It is undoubtedly easier to make a Clio on a Peugeot 206 platform than on a Japanese platform, since Japanese cars concentrate on not being heavy and the consequent reduction of petrol consumption, whereas we concentrate more on security. However, this is not insurmountable, even if at the end, from a single platform there will certainly be fifty kilos’ difference between the Japanese March and the European Clio because of the different specifications. I do not believe in the concept of a ‘global car’ : there will always be regional differences in specifications.

As far as engineering design is concerned, it is less likely that we can talk about harmonisation between the teams which work thirty-five-hour weeks and others which work almost twice as much. It would not be easy for Renault to develop a car in two years like Nissan. On the other hand, we can agree on the validation markers which can effectively be co-ordinated.

Relationships with suppliers

Q. : *For some years, Renault has committed itself to a particular relationship with its suppliers whereby the supplier takes part in the design. This ordinarily would make it more difficult to make savings on the purchases. How are you going to be able to merge your purchases with Nissan and make them enter into this partnership scheme with the suppliers ?*

G. D. : It is obvious that it is not easy to implement. Renault is the most “out-sourced” of all the global manufacturers, especially in the last few years, with notably the increase in electronic equipment in cars. Nearly 80 % of the cost price of the car is purchased elsewhere. The Japanese manufacturers do not have the same culture at all, especially Toyota. Some global suppliers have a part of their factory specially reserved for Toyota, which imposes its own way of controlling and doing things, and ensures that it remains the master of the game. At Renault, the research department is happy enough to make a sketch of the part, send it to the supplier and barely keeps tabs on it. Nissan is half-way between Renault and Toyota as far as this is concerned : when the company entrusts the manufacture of a part to a supplier, it is either the property of Nissan or the joint property of Nissan and the supplier, but all the same, Nissan keeps the control of its design.

Insofar as the aim is to pool suppliers, the Nissan research departments will have to force themselves to make the move to externalise, which will not be at all easy. Having said that, the change is really necessary. At the end of the 1980’s, when I went to Japan, I said to myself « *If only our suppliers were as good as the Japanese suppliers, then we could be as competitive as the Japanese manufacturers* ». Ten years later, the situation has been reversed since the relationship between the Japanese manufacturers and their suppliers has become too close and this has led to the ossification of the suppliers who have been thrown off course in terms of costs. This has often excluded them from global competition.

Who saved whom ?

Q. : *You have shown us an idyllic picture of the alliance with Nissan and inferred that Louis Schweitzer was in total control of the situation. However, some business commentators see it*

all rather differently. They say that for some months, Renault has not been doing very well, that the financial results have been disappointing and that Nissan has even been more than useful in order to help fill in the gaps...

G. D. : It is true that in 2001, PSA's operational margin was 5.6 % and Renault's was 1.3 %, but on the other hand, the two net results with regard to the turnover are modelled on each other. In addition, the manufacturers know cyclically when there are periods which are less favourable just before renewing their most popular models ; this is the case with Renault at the moment. Finally, I do not think that it is scandalous or amoral that we are able to benefit from the five hundred million dollars which Nissan contributed to us in 2001 inasmuch as we have invested five billion Euros in this operation and sent thirty of our most talented executives to Japan. From now on, Renault should not be considered simply as an industrial player and judged solely on its operational margin, but also as a global investor which owns 20 % of Volvo and 44 % of Nissan.

Presentation of the speaker :

Georges Douin is a graduate of *Ecole Polytechnique*. He has a solid professional experience of the automobile product and vehicle technique. He played a pioneering role with regards to the Japanese manufacturers. He is Assistant Managing Director of the 'project-to-product' division and international operations. He is a member of the Renault-Nissan board of directors.

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