

## **SMMT International Automotive Summit London, 13 June 2013**

### **Keynote speech**

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Thank you Justin and good morning to everyone.

It's a pleasure to be among so many of you today. Although I live in Japan, the UK is still the place I call home - and the British car industry is where my career was born. I feel I'm among friends.

I'd also like to recognize the importance and value of the SMMT to the health of our industry. Inside the showroom, car companies will always fight for every single customer. Outside the showroom, we have a lot more in common than sets us apart.

We are playing the same game, and the SMMT exists to make sure we are pulling together when it matters most.

This talk of games, and the name of the venue today - Clifford Chance – reminded me of a something which was recently in the news: the board game Monopoly.

It was in the news because it turns out we've all been ignoring the rules and playing it the wrong way all this time. Anyone who could be bothered to actually trawl through the text would have discovered the real way of playing it. When you land on a property you have the option to buy at the market rate. If you don't want it then the banker offers it out to the other players and the highest bidder wins.

Did you know that? I certainly didn't! It makes the game better for everyone, as it's easier to build hotels and houses on your land, plan a strategy and ultimately become the victor in a shorter space of time.

The motor industry could be seen as the world's biggest game of Monopoly. Factories, brands and talent are bought and sold. Some prove a wise investment, others turn out to be worth less than the Old Kent Road. The 'chance' cards and the roll of the dice brings unexpected good and bad fortune – but instead of 'Go To Jail' and 'Property Tax' we are given global recessions, fluctuating exchange rates and constantly changing consumer tastes.

As in the game, you negotiate with other players to achieve your goals and inevitably some of those in the game will run out of money and be forced to leave the table.

Instead of plastic houses and a lead boot though, we are dealing with millions of real lives and trillions of – real - dollars. It is estimated (ILO Report 2010) that our industry accounts directly and indirectly for 5% of the entire global labour force.

With combined revenues of more than 130 billion euros, the Renault-Nissan Alliance would be the 15<sup>th</sup> largest company in the world across all industry sectors. We directly employ more than 450,000 people across 200 countries and produce one out of every 10 cars sold worldwide.

But unlike Monopoly, the rules are constantly changing in our game. And they don't make the game easier to play. Our industry is constantly challenged by consumers and regulators to produce ever cleaner, ever safer and ever more accessible products.

At the same time, we are constantly courted to bring our manufacturing, research and development facilities – and the jobs and economic benefits associated – to every country in the world.

Today, I want to put the challenges and major industry trends that face the UK auto industry into the context of the wider global industry. I also want to address why we must continue to invest in the skills and education to make sure we know the rules better than anyone else in the world and can find and train the very best players.

I mentioned the sheer size and scale of our business. We are still dealing with the after-effects of the global economic crisis, but our industry is still set for significant global growth. Last year, some 80 million cars and commercial vehicles were sold worldwide. According to industry estimates [Morgan Stanley report] global sales will rise by 30 million units between now and 2020, topping the 100M units-a-year mark for the first time in history.

This growth will be very different to the patterns that defined our business to date. Half of the growth will come from the top-six global OEM groups. The other half will come from around 100 other auto companies. Half of those will be Chinese.

Even in this room of experts, I suspect most of us couldn't list the names of more than a handful of Chinese auto companies. But this will change. Already there are dozens of players, all with very serious ambitions to be playing at this table.

For the countries that comprise the so-called BRICs, combined total industry volume has grown from 4.3M units - or 8% of global TIV - in 1999 to 28.2M units and representing 35% of global industry volume in 2012.

In 1999, the Renault-Nissan Alliance sold 4.8 million vehicles worldwide and BRIC sales represented 1% of the Alliance's total sales volume. Last year, the Alliance sold 8.1M vehicles, of which more than 2.5M units were in the BRICs, representing 30% of the Alliance's total volume.

For Nissan alone, China is now our largest single market, representing over 20% of our 5M annual global sales.

For the millions of consumers who are joining the middle classes, a car is the first thing they purchase. In the United States, there are about 800 cars per 1,000 residents. In Russia, it's already 280 per 1,000. In China at large, it's 50 - although in Beijing it's already at 180. In India, it's 15.

Does anyone believe that consumers in these countries – the engines of growth in the 21st century – will accept a level of personal mobility less than that of an average European country – and that's around 500 cars per 1,000 people.

By 2050 there may be 2.5 billion vehicles on our planet – up from less than a billion today.

That's a lot of pieces crowding onto our Monopoly board.

The continued motorization of our planet, as encouraging as it is for our industry, also represents our most serious challenge. How can we grow in a way which is sustainable for us all and the environment?

Some are cynical about global warming. They've questioned the overwhelming consensus of the world's scientific community. And in so doing, they've enabled our industry to remain a contributor to climate change – part of the problem, instead of part of the solution.

This is a wasted opportunity. Regardless of your views on global warming, it is a fact that having circa 800m (UIO) cars in operation, generating millions of tonnes of CO<sub>2</sub> is not beneficial to anyone - and it's going to get worse!

The transportation industry generates at least 20% of greenhouse gas emissions in Europe, which has some of the strictest controls in the world. Greenhouse gas emissions -- and the related issue of air quality -- are an even greater concern in emerging markets, where much of our industry's growth is happening. China's cities have reached record levels of smog in recent months, much of it due to car exhaust. The situation has become so severe that Beijing has asked public officials to stop driving internal combustion engine cars.

Public officials in Beijing can't use their cars? This is an anecdote that should serve as a call to action for our industry. China is already the largest car market in the world and one of the fastest growing. China is adding millions of people to its middle class each year. So, it's reasonable to expect that China, a global economic superpower, should demand a similar level of personal mobility as an average European country. As a nation with 1.3 billion people, that translates to a potential market of more than 30M vehicles a year!

That's 30M cars every year, all requiring resources and fuel, and all producing emissions of some sort.

As we expect to go from 80 million new cars per year today to 100 million new cars per year by 2020, high air pollution levels in the world's largest cities require the auto industry to develop a breakthrough strategy. We know that by 2050, 70% of the world's growing population will live in cities and all demand and deserve the right to breathe clean air.

Even here on the streets of London, the beloved black cab alone generates 34% of the total exhaust particulates created by all motorized transportation in the capital. In certain areas of London, such as Westminster, it's almost half. However, we as an industry have the tools to fix this.

Today, we rely primarily on fossil fuels to meet our energy demand. Three hydrocarbons — oil, coal and natural gas — satisfy 87% of our global energy demand. These fuels are finite and non-renewable; by definition, they will not last forever.

These fuels are also expensive. Last year, the European Union spent more than 350 billion euros (\$500B) to import oil. The United States spent 430 billion dollars, or more than 2% of its GDP. China spent about 220 billion dollars, or 4% of GDP. India spent about 130 billion dollars, or 6% of its GDP.

If these four regions spent some 1.3 trillion dollars to import oil in 2012, a year of decline in Europe and uncertainty worldwide, imagine how much more the world will spend in the next upturn!

Governments too, see the need for low and zero emission vehicles, reducing the risks associated with reliance on a single, non-renewable resource through the rapid diversification of their energy mix. They're investing heavily in renewables such as solar, wind and hydroelectric power. These forms of energy create jobs and rely on local resources – not on imports.

In order to give mobility to the emerging markets and make the planet more sustainable, we need a new approach. It's clear that reliance on cars powered solely by internal combustion engines is not sustainable in the medium term.

Ultimately, I believe that every car will feature electric motor propulsion of some kind and it's certainly been my dream and mission to put Nissan at the cutting edge of this transition rather than playing catch up. Clearly the ideal end-game is zero-emission vehicles that people can easily recharge from more renewable energy be it electric or hydrogen.

Norway is an example of the “virtuous circle” of renewable energy and zero-emission cars. Home to the largest dealer for the Nissan LEAF worldwide, electric cars are already 3% of the total car market in Norway, and they consume clean, locally-generated hydropower. They enjoy tax-free status and can charge at 3,500 public charging stations. When given an incentive and infrastructure, it's clear that consumers want to buy green cars.

Earlier this year, I joined Prime Minister David Cameron at our Sunderland Manufacturing Plant to mark the start-of-production of the Nissan LEAF. The UK has entered an era of mass-producing electric vehicles, another sign that this country can continue to be at the leading edge of innovation in our industry.

The investments being made into low carbon and zero emission mobility are just one example of why I believe the auto industry must remain as a core economic engine for the long-term future of the UK economy.

Now, let me shift gear for a few minutes and examine the global industry from another perspective – from the perspective of mega-trends and changing consumer behavior. This is where the rules are really changing.

Trend 1: For example, would it surprise you to know that globally, 50% of women are dissatisfied with their car? And a huge 74% of women feel misunderstood by automakers in the USA. I know these statistics sound like they are talking about their lovers not their cars, but the reality is our industry is failing the largest and most influential customer segment in the world! Perhaps one factor is the lack of women in our business: I'm sure that Nissan is not untypical in employing less than 10% female managers in our ranks; and our UK universities produce less than 9% female engineers each year (that incidentally compares with China at about 30%) (Source: 2011 “The Engineer”).

Trend2: It's a frightening reality that young people in developed markets, such as the UK, are less interested in cars. My generation was brought up lusting after the latest technology, and

historically that latest technology was delivered in cars. Now the cutting edge of consumer innovations are delivered by smartphones.

We can learn from those smartphones though. Research shows that although young people shy away from an ownership commitment, they still want the latest devices, so they lease and pay per month rather than buy outright. They also don't want to spend time researching purchases and are more likely to turn to friends for recommendation. And these days, those friends are more likely to be thousands of people linked on social media rather than a few blokes down the pub.

Trend 3: While the younger generation is using those smartphones to ask friends what smartphone they should get next, their parents are busy wondering how to spend their hard-earned pension. The over-50s will represent 58% of the population in G7 countries by 2020 and we need to know how to appeal to them.

The good news is that this generation loves cars. They appreciate technology and quality and are willing to pay for it. And once you have found a way to appeal to them, they're loyal to your brand and dealers: once aged over 45 they are 25% more likely to repurchase from the same marque compared to a younger buyer and they'll return to a dealership they like.

Trend 4: But that's just in the developed markets. If we want to get in on the game in those booming BRICs we have to carefully observe the needs and wants of buyers there. Even though we lump them together, they're very different.

The 'B' and 'R' of that BRIC are Brazil and Russia. Both are relatively mature markets, with only 15% of customers buying a car for the first time. In the 'I' and 'C' – India and China – the figure is 60%.

These 60% are the most interesting. They're buyers called the 'Empowered Youth'. They are highly educated and have access to a variety of global information. Unlike the previous consumers in these countries, they don't want to flaunt their wealth with obvious 'bling'. They want quality for sure but their tastes are more restrained and they'll seek out individual features which fit in with their lifestyles.

All of the trends I have described are very much about people and their expectations of our industry and the cars we create. Although we cannot meet every challenge as quickly or economically as we would like, we need, in my opinion, to focus on three fundamental technology shifts.

The first, as I have previously mentioned, is around the move towards low carbon and zero emission mobility. Low emission and zero emission cars are no longer a science experiment. They are a commercial reality and becoming more accessible to more consumers every day.

Second, is the transition to technologies that enable autonomous driving. I know many of the enthusiasts in the room, myself included, never want to lose the ability to take a car for a 'Sunday morning drive'. However, who wouldn't welcome the car taking over on a wet night in the rush hour on the M25? Also bear in mind that the gizmos that support autonomous driving are many of the same technologies that can improve energy consumption, reduce congestion and are already preventing injuries and fatalities on our roads.

Matching zero emissions with zero fatalities must be a no-compromise vision our industry should pursue without any argument.

Concluding my observations on the future of transport, we have already moved from a situation where the vehicle and driver are in a master-servant relationship. Facilitated by the use of so-called 'Big Data', the car is now becoming a technology partner, enabling consumers to have a much greater level of interaction and value from their motoring experience.

Now finally, I wanted to pull all of this together to address the future of our industry in the UK. What is our place in this big game of Monopoly; how are we changing the rules of the game to favour our strengths; how are we going to stay in the game?

Overall, I am very optimistic. Starting with the demise of British Leyland and the subsequent rebalancing of auto manufacturing in this country, our industry has gone from the symbol of a troubled economy to a paragon of innovation and vitality for Britain.

You will forgive me for giving recognition again to the Nissan plant in Sunderland, which for the 15th year in-a-row was the largest auto plant in the UK by total volume produced and by export. Other manufacturers and plants also worthy of recognition include Mini in Oxford, Jaguar Land Rover at Halewood and the showcase Rolls Royce facility at Goodwood. All are examples of manufacturers investing in great products, a skilled and committed workforce and producing high-quality vehicles which are desired around the world.

This is proof that Britain can win. But we need to make sure we have the tools and the people to keep winning.

In an age when service sector employment is growing exponentially, we have to ensure there is a choice for young people that will give us the balanced workforce we need for our future success. And I don't just mean training people for the manufacturing or engineering sectors of our industry. I want to see us investing in education for the technical skills that are increasingly needed in areas like IT/IS, marketing and customer relations.

As an engineer, I tended to regard areas like marketing and communications as more 'art' than 'science'. When I was at Austin Rover, the marketing people were simply called 'flower-arrangers'....

As marketing is now one of my global responsibilities at Nissan, I can assure you what I need more than ever are mathematicians and not party planners! I still apply engineering rules to marketing and communications. If the numbers don't add up, I don't do it.

The importance of making numbers add up was something I learnt early in my career. Many of you know I started in the industry as an apprentice at Automotive Products before moving to Austin Rover. Although I subsequently completed my under-graduate and post graduate education after becoming an apprentice, I still believe it was my time learning a technical craft in the tool and die shop at Leamington Spa that gave me the foundation skills that still serve me well today.

Equally, I was fortunate enough to go on to do several degrees and appreciate the value of higher education. The vocational skills of the Apprenticeship and the Mathematical and Technical skills of a degree are vital food for the talent needed by the car industry. If the UK can produce both, we can retain our place at the board.

Amidst the constant challenges of the global auto industry, the UK has proved that it can reinvent itself in this sector. With recognized expertise in areas such as motorsport, product design and the manufacturing of high-value and premium vehicles, I see a bright future for the car industry in Britain if we can adapt ourselves for the global mega-trends and technology shifts that lie ahead. That means we have to prepare ourselves to be at the forefront of these trends.

Our success will be short-lived if we don't continue to innovate and remain competitive on a world-class basis. We need to load the dice in our favour with more skills in areas such as zero-emission mobility, autonomous driving technology and "big data" expertise, which bring together the government and car companies. We need more innovation in the way we are educating and training our young people, equipping them with the new skills required by our industry. And finally, it means never forgetting that the ultimate innovation in this business is creating safe, clean and exciting products that consumers, and journalists (even Jeremy Clarkson!), love to drive and own.

Vocational skills through Apprenticeships and higher educational degrees focusing on the changing needs of our customers worldwide, are vital for our industry in the UK to continue to flourish; for the UK to have its skills at the engineering centres and board-rooms of automotive companies worldwide and for the UK to attract increasing inward investment not only in manufacturing, but also in trend leading engineering and research projects.

That's how we can all stay ahead of the game.

Thank you for your attention and I will now take your questions.