

## Tracking the recent profound shifts in the relocation of production by major French automotive groups

Since 2018, the contribution of French automotive sector industrial groups to the current account balance of goods has fallen sharply, despite remaining positive (due to the increase in merchanting). Their trade balance registered through French Customs has fallen into deficit, with French automotive groups now importing more manufactured goods from abroad than they manufacture in France for export. This trend reflects an acceleration in the shift of value chains abroad, with assembly plants being developed outside France (mainly in Europe), and a growing dependence on foreign-sourced intermediate inputs, particularly from China. This internationalisation by manufacturing on foreign sites has been accompanied by an increase in total exports (customs and merchanting), but a decline in the sector's trade balance.

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Balance of Payments Directorate

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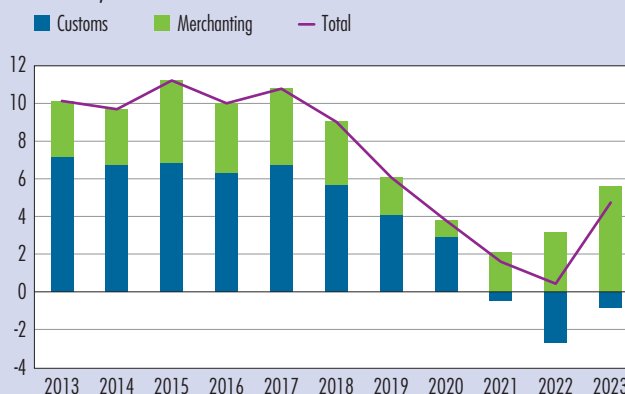
-EUR 7.8 billion  
the deterioration in French automotive groups' contribution to France's customs balance between 2013 and 2023

+EUR 5.8 billion  
French automotive groups' contribution to the merchanting balance in 2023

23%  
the proportion of French manufacturers' light vehicle production carried out in France in 2023

### Contribution of large French automotive groups to France's balance on trade in goods

(EUR billions)



Source: Banque de France calculations based on customs and balance of payments data.

# 1 French industrial groups' historically positive contribution to France's balance on trade in goods has gradually centred on merchanting

Since the end of the 2000s, France has been an overall net importer of automotive vehicles. On the one hand, imports have increased, driven by foreign manufacturers penetrating the French market, while on the other, exports have been hampered by the stagnation, and even decline, of automotive manufacturing in France.

Within the automotive sector, for a long time French manufacturers have made a highly positive contribution to France's trade balance. This article shows that the choices made in terms of the location of their manufacturing have gradually eroded their customs surplus, replacing it with a merchanting surplus.

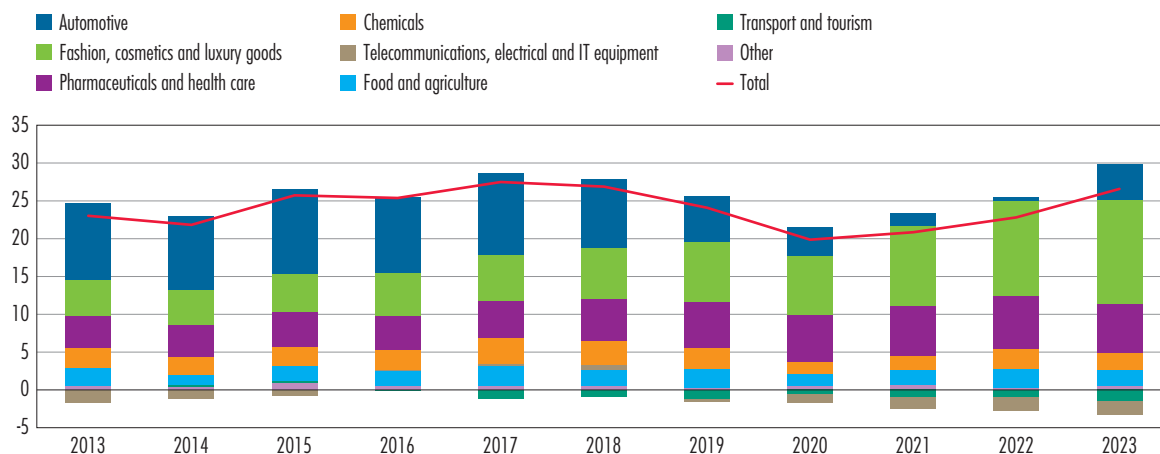
The balance on trade in goods of France's large groups continues to show a surplus, despite declining significantly since 2018

In contrast to the country as a whole, large French groups<sup>1</sup> post a largely positive trade in goods balance.<sup>2</sup> Traditionally, until 2018, the main contributors (excluding aerospace and energy) to the trade in goods surplus were large French groups operating in the automotive sector, which generated an annual surplus of around EUR 10 billion. However, their contribution declined sharply between 2019 and 2022 (when it almost disappeared), although a partial recovery was observed in 2023.

To understand these changes, in this article we break down the trade in goods balance of the large groups in the French automotive industry between customs-based trade and merchanting. The latter corresponds to the

## C1 Contribution by sector of the large French industrial groups to the trade in goods balance

(EUR billions)



Source: Banque de France calculations based on customs and balance of payments data.

Scope: Excluding aerospace and defence, and energy.

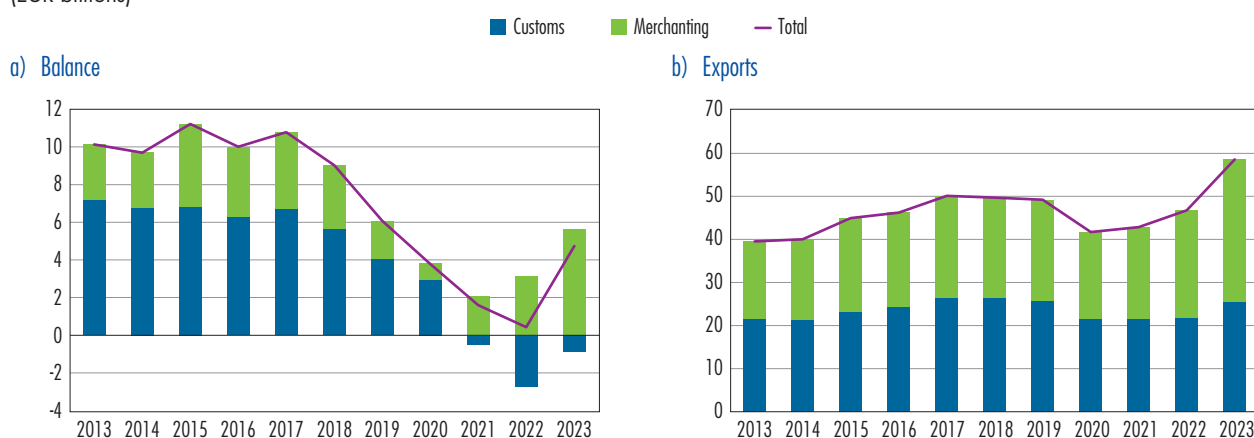
Note: Trade in goods measures customs data and merchanting.

1 Here, the concept of "large groups" covers direct balance of payments reporters, i.e. non-financial firms whose cross-border transactions exceed a regulatory threshold defined by the Banque de France (Decision No. 2007-01 of the Monetary Committee of the Banque de France General Council is currently in force). In this article, automotive groups cover the main French (i) automotive vehicle manufacturers and (ii) automotive equipment manufacturers. See the methodological appendix for further details.

2 Chart 1 shows – for a constant panel of large French groups (excluding the energy and aerospace sectors) – a trade in goods surplus. This overall result is in contrast to the persistent deficit in the balance on trade in goods excluding energy for the country as a whole. The aerospace sector, which presents a particularly large trade in goods surplus, has been removed from the chart to improve clarity.

## C2 Contribution of French automotive groups to trade in goods between customs and merchanting

(EUR billions)



Source: Banque de France calculations based on customs and balance of payments data.

purchase and subsequent re-exportation of products manufactured in plants located abroad, which do not physically transit through France: as they do not cross the French border, they are not recorded by customs. Making this distinction allows us to assess the effects of France's chain of value added being reallocated abroad.

Merchanting has expanded significantly, posting a historically high balance in 2023 (see Chart 2a). However, the conventional customs-based surplus, which stood at between EUR 6 billion and EUR 7 billion per year between 2013 and 2018, has disappeared. As a result, between 2021 and 2023, France's main automotive groups became net importers based on customs data.

The change in the merchanting balance and customs-based trade balance for automotive vehicle and equipment manufacturers reflects the relocation of production facilities, particularly final assembly lines, from France to a third country. Combining customs data for exports from France with data on income from merchanting reveals a historically high degree of global market penetration by French manufacturers (see Chart 2b).

### A geographical breakdown of automotive sector trade shows the growing importance of final assembly plants in the European Union

While the cyclical impact related to the Covid crisis is undeniable, an analysis of a geographical breakdown also brings to light the expansion of final assembly plants abroad, mainly in the European Union, as well as the increase in the supply of imported inputs. These changes are the result of the international reallocation of French automotive manufacturers' value chains.

In addition to the main customs and merchanting flows shown in Charts 2 and 3, a detailed country-by-country analysis of flows shows – unsurprisingly – that the distribution of automotive vehicle and equipment manufacturers' exports corresponds to their main foreign markets. However, imports show a greater degree of concentration around countries known to host the assembly plants of large French manufacturers (notably Morocco, Romania, Slovakia and Spain).

In addition to finished products, customs-based trade data also cover imports of industrial inputs and show that China plays an increasingly important role. Although China's share of customs-recorded imports is growing extremely rapidly, its share in terms of merchanting expenditure remains modest. This indicates that China mainly supplies spare parts intended for assembly plants in France and

is not one of the main countries hosting final automotive product assembly for large French groups.

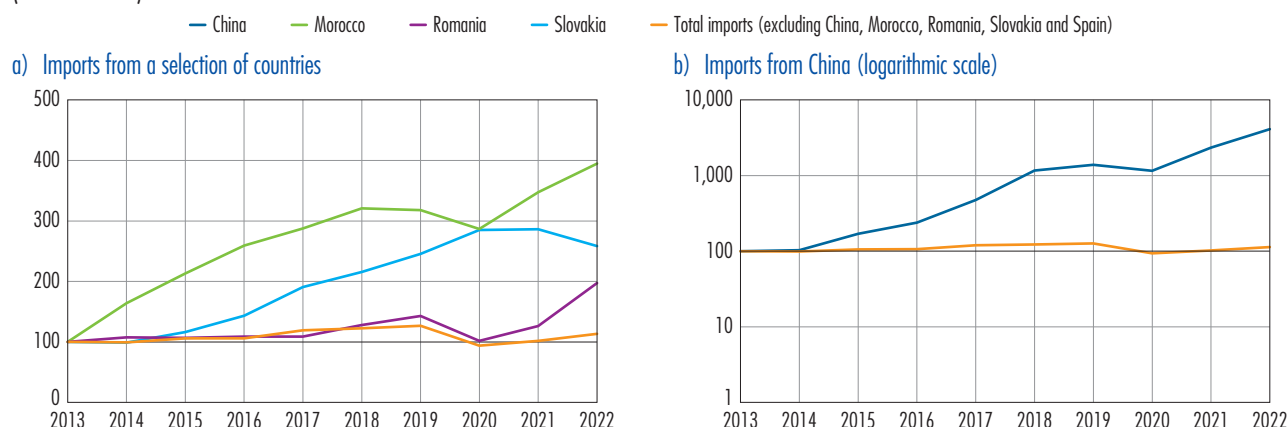
In order to identify the emergence of new supplier countries for French automotive groups, we have aggregated customs and merchanting imports for five countries: China, Morocco, Romania, Slovakia and Spain. These figures were then compared with the average for other countries (see Chart 3). The deviation from this benchmark reveals

the relative growth in each of these countries' volumes in the value chains. We see that bursts of growth occur in succession and correspond to the dates on which French manufacturers set up operations in each of the countries.

Spain deserves particular attention as its role as a foreign supplier to large French automotive groups is historically significant. Chart 4 shows that although successive surges in Morocco, Slovakia and Romania are clearly

### C3 Comparison with total imports of imports of goods by large French automotive groups from a selection of countries

(100 = 2013)

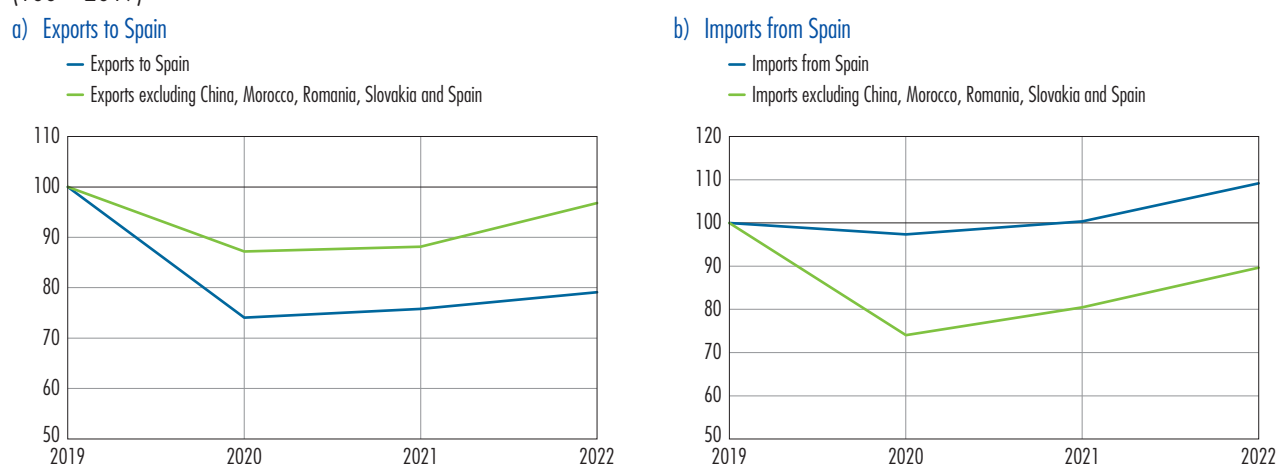


Source: Banque de France calculations based on customs and balance of payments data.

Notes: Trade in goods measures customs data and merchanting. We assess the growing importance of certain supplier countries by comparing the change in imports by large French automotive groups from these countries with a benchmark group representing total imports from other countries.

### C4 Trade between the large French automotive groups and Spain, and comparison with a benchmark group of partner countries

(100 = 2019)



Source: Banque de France calculations based on customs and balance of payments data.

Note: Trade in goods measures customs data and merchanting.

distinguishable, the transfer of value chains from France to Spain coincided with the cyclical fluctuations associated with the Covid crisis in 2020. This transfer of manufacturing from France to Spain could have been difficult to identify at the time, as it coincided with a significant decline in both production and consumption during the health crisis. The smaller contraction in imports from Spain and, conversely, the larger contraction in exports to Spain than to other countries point to a more profound shift in the value chain towards Spain, which took place precisely during this period.

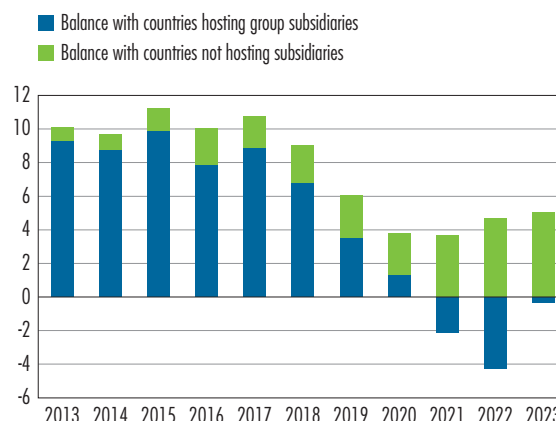
## 2 The transformation of the French automotive industry is characterised by a shift in value chains abroad

### Subsidiary location is reshaping the international trade of French automotive manufacturers

The contribution – historically positive – of French automotive vehicle and equipment manufacturers to the trade balance at the beginning of the period (EUR 9.3 billion in 2013) has gradually disappeared, and has become negative in countries where the presence of subsidiaries is significant (-EUR 4.2 billion in 2022). However, the trade balance with countries that do not host subsidiaries, i.e. in markets without production facilities, remains generally in surplus and is improving (EUR 4.7 billion in 2022). The international reallocation of French automotive manufacturers' value chains is a key factor in the trade balance's deterioration since 2018. In order to better quantify this effect, Chart 5 breaks down the balance of trade in goods of French automotive groups on the basis of whether they have subsidiaries in a given country or not. The trade balance with countries that host French subsidiaries is calculated by cross-referencing two sources: foreign trade flows and the Financial links between enterprises (Lifi) survey conducted by the *Institut national de la statistique et des études économiques* (INSEE – the French National Institute of Statistics and Economic Studies), which records the relationships between parent companies and their subsidiaries abroad. This allows us to ascertain – for each company and reference period – whether exports and imports are being carried out with a country where the company has a subsidiary (see methodological appendix for further details).

### C5 Trade in goods balance of French manufacturers by counterparty country

(EUR billions)



Source: Banque de France calculations based on customs and balance of payments data and INSEE's Financial links between enterprises (Lifi) survey.

Note: Trade in goods measures customs data and merchanting.

An analysis based on the main components of the current account of the deterioration of the trade balance between 2018 and 2022 allows us to identify the different forms of trade carried out by manufacturers with their subsidiaries and to understand the reasons behind their decline.

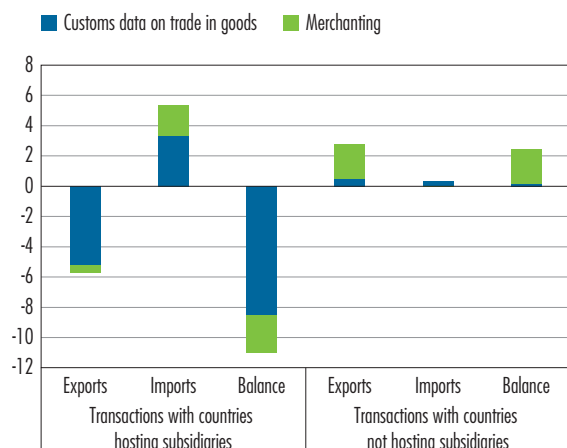
In France, the deterioration in the customs balance in countries hosting subsidiaries is mainly due to a decline in exports (see Chart 6 below). Exports fell by a little under EUR 6 billion in terms of customs trade, while imports rose by nearly EUR 3 billion over the same period.

The decline in French automotive exports to countries hosting subsidiaries can be explained by market penetration strategies. Increasing the presence of French groups abroad leads to more sales of vehicles from the country where the group's subsidiaries are located, thanks to the products being manufactured locally. Therefore, these flows are no longer recorded in the customs statistics as French exports, in contrast to the transactions carried out by the parent company in France directly with the rest of the world.

The increase in customs imports between 2018 and 2022 appears to be largely consistent with the increase in the

## C6 Change in flows of trade in goods of French manufacturers from 2018 to 2022 by counterparty country

(EUR billions)



Source: Banque de France calculations based on customs and balance of payments data and INSEE's Financial links between enterprises (Lifi) survey.

Note: Trade in goods measures customs data and merchancing.

share of finished vehicles or intermediate consumption supplies from subsidiaries located abroad for use in final assembly plants still located in France.

The presence of subsidiaries drives merchancing, increasing exports to countries without subsidiaries by EUR 2 billion, while boosting imports from countries where subsidiaries are located. French groups thus import vehicles

manufactured abroad for re-exportation without their crossing the French border. Only the trading margin generated on these transactions is recorded in merchancing in the balance of payments.

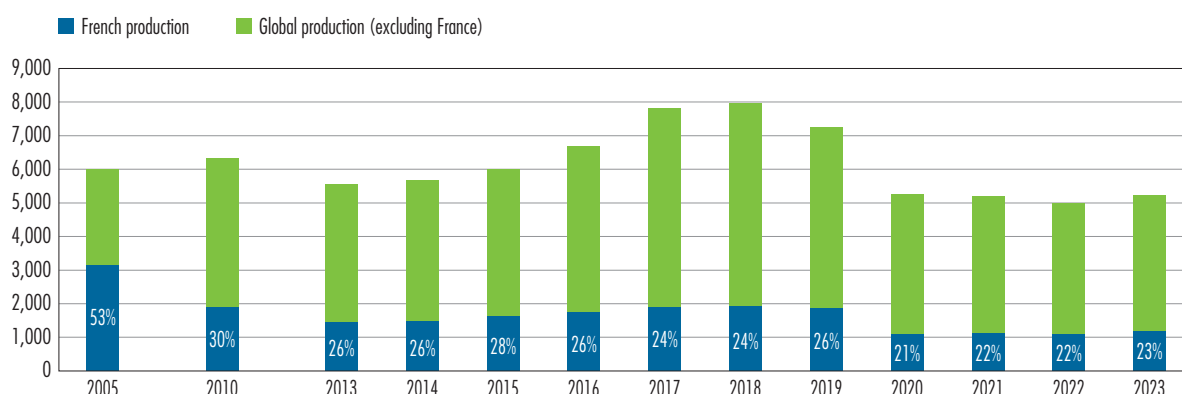
## The Covid crisis accelerated the decline in production in France

The slump in French manufacturers' customs balance from 2020 onwards prompts us to make a distinction between cyclical factors linked to the health crisis and structural factors relating to the acceleration of the relocation of assembly and inputs outside France.

In addition to the significant impact of the economic developments linked to the Covid crisis, a fundamental trend towards outsourcing emerges. Chart 7 shows even more clearly the gradual relocation of part of the manufacturing process to subsidiaries established abroad. As a result, the share of French manufacturers' domestic production fell steadily from 53% of its global total in 2005 to just 26% in 2019. This trend intensified during the 2020 crisis, when it fell to 21% of group total production, without any significant recovery since. Although the health crisis coincided with an acceleration in offshoring, a causal link between the two has not been established, and it seems more appropriate to treat it as a simple question of concomitance.

## C7 Light vehicle production by French manufacturers

(units produced in thousands and ratio of French production in %)



Source: Banque de France calculations based on data from the *Comité des constructeurs français d'automobiles* (CCFA – the French Automobile Manufacturers Committee).

Note: Excluding Fiat Chrysler Automobiles (FCA) after 2021 (the reporting entity Stellantis retained the same pre-PSA-FCA merger scope as the PSA entity).

The decline in production in France reflects a trend among French automotive manufacturers to relocate the manufacturing of their lower-end and economy models, which are most in demand on European and international markets, to other countries. By contrast, the manufacturing retained in France mainly concerns mid-range models, which have less success outside the domestic market. This trend arises from (i) the desire to reduce production costs for models with low unit value added and (ii) the need to access emerging markets and even develop models specifically adapted to local markets.

As a result, French automotive manufacturers' best-selling models are no longer produced in France, but in Eastern Europe and North Africa. Spain is also a major production location for French manufacturers, where a wide variety of their models are assembled.

### The internationalisation of the automotive sector reduces its positive contribution to France's current account balance

The internationalisation of the large automotive sector groups has led to a reduction in their positive contribution to France's current account balance. Exports transiting through French customs are declining, as foreign markets receive fewer and fewer inputs from France itself. At the same time, French automotive groups import vehicles manufactured abroad for re-exportation, often without

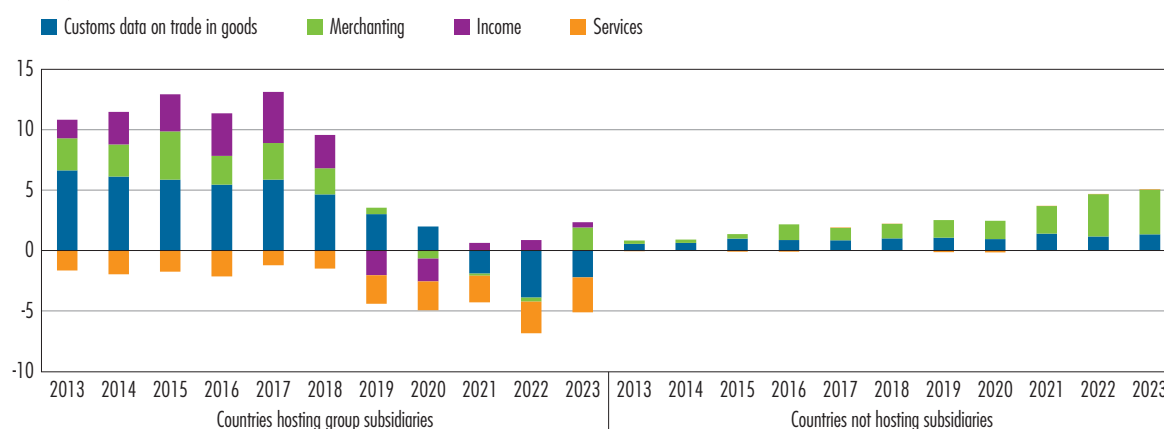
transiting through France. In this case, only the trading margin generated on these transactions is recorded in merchanting in the balance of payments, whereas in a counterfactual scenario, all exports would have been recorded by French Customs. The increase in imports, notably linked to domestic consumption of vehicles produced by French manufacturers but assembled abroad, is also a key factor in this deterioration.

The current account transactions of French automotive groups deteriorated as from 2018 in countries that host French manufacturers' production subsidiaries (see Chart 8), notably through exports of goods recorded through customs. Neither services nor income appear to have offset this loss. On the one hand, the balance of trade in services is negative as a result of net imports, mainly associated with technical services provided to companies; and on the other, income received by France is affected by negative reinvested earnings over the 2019-20 period, as well as by a significant decline in dividends from 2019 onwards. In addition, 2021 saw some major mergers with international groups that could explain an increase in dividends paid by France to the rest of the world.

However, these effects are partially offset by current account transactions with countries that do not host automotive subsidiaries. The trade in goods surplus vis-à-vis these countries reflects the fact that finished vehicles are

## C8 Current account of French automotive groups

(EUR billions)



Source: Banque de France calculations based on customs and balance of payments data and INSEE's Financial links between enterprises (Lifi) survey.



supplied either from France (for goods registered with customs) or from countries where production facilities are located (for merchanting).

### **3 Recent transformations in large French automotive groups: the internationalisation of production chains and the deterioration of France's external accounts**

If we consider the trade balance for automotive goods as a whole, France's deficit is a long-standing and well-documented phenomenon that dates back almost two decades. The significant penetration of imported vehicles in the French market has resulted in a situation of import dependency. However, the unprecedented phenomenon highlighted by this study is grounded in the fact that in 2023, French manufacturers themselves became net importers of goods recorded by customs.

In 2023, and in contrast to the 2000s and 2010s, the international activity of French manufacturers no longer helped to limit the negative impact of imports of foreign-made vehicles on the trade in goods balance; on the contrary, it tended to accentuate it. Indeed, imports of goods by French manufacturers now exceed their exports.

However, it is essential to adopt a factual accounting approach and to avoid two pitfalls: (i) one must bear in mind that the situation observed in 2023 does not necessarily represent a trend that is set to intensify; and (ii) it is important to qualify the balance of payments analysis – which shows an overall negative contribution from the activity of large French automotive groups – by taking into account their long-term competitiveness strategy.

Indeed, as illustrated in Section 1, Chart 2, combining customs data for exports from France with data on income from merchanting reveals a historically high degree of global market penetration by French manufacturers.

Access to foreign markets is a positive asset for these groups and may prove essential to maintaining long-term activity. But in the absence of a counterfactual scenario, we can only speculate as to whether such an overall performance could have been achieved without the observed trend towards offshoring.

However, against a backdrop of rapidly changing automotive supply and demand – notably with the increasing hybridisation and electrification of vehicles – future adjustments to production chains are to be expected. In any event, these adjustments could potentially lead to facilities being relocated to France, following the example of Renault's announcements in 2021 regarding the repatriation of electric vehicle and EV battery cell production to France from 2025 onwards. Several factors could work in this transition's favour, including better cost control through industrial integration, secure supplies of key components, and state aid such as the "France 2030" investment plan or the IPCEIs on Batteries.<sup>3</sup>

<sup>3</sup> The Important Project of Common European Interest (IPCEI) on Batteries is a European project aimed at creating a strategic industrial sector, from production to innovation, for batteries in Europe. It provides funding for transnational projects to enhance technological autonomy and the decarbonisation of the economy, with significant involvement from France through players such as ACC and Verkor.



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## Methodological appendix

The current account in the balance of payments is largely drawn up on the basis of trade in goods data, which are exhaustively compiled by the customs authorities. These data are supplemented in order to measure, among other things, merchanting, trade in services and income. The statistical compilation is notably based on direct reports made by approximately 500 large groups, known as *déclarants directs généraux* (DDG – general direct reporters), which declare all their international transactions to the Banque de France. Smaller entities' transactions, however, are estimated on the basis of surveys conducted on a representative sample.

In this study, we analyse the contribution of French manufacturers to the trade in goods balance in France's balance of payments. Our analysis is thus based on a panel of the 500 largest reporting entities, present without interruption between 2013 and 2023, in order to avoid any composition bias. Thus, by combining customs data with balance of payments data for each reporting entity identified by its SIREN business registration number, we dispose of an accounting overview of these entities' contribution to France's current account that is both exhaustive and detailed.

More specifically, this study focuses on the main French automotive manufacturing groups with a global presence,

as well as the other industrial DDG in the automotive sector (equipment manufacturers) included in our panel, even if the size of their activities recorded by French Customs or declared to the Balance of Payments Directorate are modest compared to that of manufacturing groups.

However, tyre manufacturing for vehicles has not been included in the scope of our analysis, as it is considered a separate activity and not a direct input into the automotive manufacturing value chain. Tyres are considered a consumable supply that can easily be replaced by the manufacturer, distributor or even the end-customer, in contrast to components supplied by equipment manufacturers, which are integral to the production process.

Finally, the notion of trade balances with countries hosting subsidiaries (see Section 2) is established by matching the various trade flows measured in the balance of payments with the Financial links between enterprises (Lifi) survey conducted by the *Institut national de la statistique et des études économiques* (INSEE – the French National Institute of Statistics and Economic Studies), which records the financial relationships between parent companies and their subsidiaries. Exports and imports are matched by business registration number depending on whether or not the counterparty country of these flows hosts subsidiaries for a given group and reference period.

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