AUTOS INDUSTRY

BMW to Take Control of China Joint Venture in $4 Billion Deal

Company is the first foreign auto maker to take advantage of Beijing's easing of long criticized rules that limit foreign ownership in the sector

BMW Chairman of the Board of Management Harald Krüger and German Chancellor Angela Merkel visiting a BMW Brilliance Automotive facility in Shenyang, China, in June 2016. PHOTO: RAINER JENSEN/ZUMA PRESS

By Trefor Moss

Updated Oct. 11, 2018 6:57 a.m. ET

SHANGHAI— BMW AG BMW -0.33% ▼ will assume majority control of its Chinese joint venture, becoming the first foreign auto maker to take advantage of Beijing's easing of long criticized rules that limit foreign ownership in the sector.

The German auto maker will pay €3.6 billion (about $4 billion) to increase its stake in its partnership with Brilliance China Automotive Holdings Ltd. BCAUY -5.11% ▼ to 75% from 50%. The new joint-venture agreement lasts through 2040, extended from 2028.

As part of the deal, the joint venture will significantly expand its manufacturing base in Shenyang in northeast China, BMW said in a statement Thursday.

"BMW will gain a competitive edge in the China market," said Yale Zhang, managing director of Shanghai consultancy Automotive Foresight.

In April, China announced an overhaul of regulations governing its auto industry. Foreign auto makers had previously been required to build vehicles in China through joint ventures in which they could hold a 50% stake at most. The new rules allow them to own all of their Chinese operations.

Beijing announced the changes weeks after U.S. Trade Representative Robert Lighthizer published the findings of his investigation into Chinese trade practices. In it, he criticized joint-venture requirements as "a cornerstone of China's technology transfer regime."

At the time, the lifting of foreign-ownership limits was seen as an important concession on China's part, though it failed to prevent an escalation in Washington and Beijing's trade dispute.

While the new ownership rules apply equally to all foreign auto makers, BMW was able to move early because its partnership with Brilliance is particularly unequal, Mr. Zhang said. "In this JV, the foreign partner is superstrong and the local partner is superweak. Brilliance doesn't contribute much," he said.

State-run Brilliance isn't regarded as a significant player in China. It sold about 102,000 vehicles under its own brand in 2017, compared with 387,000 locally built BMWs, and is heavily dependent on revenues from its joint venture with BMW.

Most foreign auto makers, including Ford Motor Co., General Motors Co. and Volkswagen AG, have said they don't plan to adjust or dissolve their Chinese joint ventures, most of which have been operating for more than two decades. They say breaking away from the partnerships would be too complex, even though as sole operators they would be able to retain all the profits from Chinese sales and have a free hand to manage their local interests.

China is phasing in the new rules over several years. Foreigners can wholly own companies that build electric cars starting this year, while restrictions on commercial-vehicle makers will be lifted in 2020 and limits on all remaining auto makers will be removed in 2022. BMW said the changes to its joint venture would come into effect in 2022, in line with the new regulations.

Auto analysts say the reforms have huge implications for the Chinese auto industry but note that it will be years before the full impact becomes apparent. Foreign auto makers locked into long-term joint-venture contracts, often with more influential partners than Brilliance, must weigh the opportunities and risks of taking majority stakes or striking out on their own in China.

BMW's commitment to invest and create jobs, and its interest in turning the Shenyang plant into an export base should be sufficient to persuade the government of Liaoning province to back the deal. The province, home to Shenyang, controls Brilliance, and the deal requires regulatory and shareholder approval.

Freedom to control strategy in China will give BMW an advantage over rivals that need to agree to decisions with powerful local partners.

BMW-Brilliance is the test case for China's new regulations, and Premier Li Keqiang has taken a close interest. Mr. Li first raised the idea of BMW increasing its stake during a trip to Germany in July, and he met with BMW Chairman Harald Krüger in Beijing on Wednesday before the announcement. Mr. Li said the changes to the BMW-Brilliance partnership showed that China was fulfilling its promise to open its markets to more foreign competition, according to state media reports.

In July, BMW announced a second joint venture with a Chinese auto maker, Great Wall Motor Co., to build an electric version of the Mini at a new plant in eastern China. That joint venture will be a 50-50 partnership.

The chance to take a bigger slice of the profits from its China-built cars is especially important for BMW, which has taken a hit from the U.S.-China trade spat. Though China cut import tariffs on cars from 25% to 15% in July, it imposed an additional 25% tariff on U.S.-built cars in retaliation for new U.S. auto tariffs. BMW imported more than 187,000 vehicles into China last year, more than any other auto maker, with many of those cars built in the U.S.

The premium auto segment, in which BMW is a leading player, remains a bright spot amid slowing vehicle sales in China: Premium sales will grow by about 10% this year, according to DBS Bank, while mass-market auto sales are set to register little or no growth.

Write to Trefor Moss at Trefor.Moss@wsj.com