UK Rover plant may still close as BMW tightens its belt

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The future of the Rover car plant in Birmingham, England is once again the subject of intense speculation. Its owners, BMW, are seeking to rationalise their global operations. In December BMW axed 2,500 jobs and introduced new super-flexible contracts at the plant in a bid to raise productivity and cut costs. The company stated that without such restructuring the factory, which employs 16,000, would close.

The trade unions at Rover presented the deal as one that would "save" the plant in the long-term. Within two weeks of the deal being ratified by Rover's workforce, BMW announced that a further 2,500 jobs could be lost in 1999. This figure now looks like the thin end of the wedge, as rumours circulate that the plant could be closed.

On February 11 BMW's chief executive Bernd Pischetsrieder resigned after failing to win the support of his board. He was the kingpin in BMW's £800 million acquisition of Rover in 1994 and is associated with the failure of this take-over.

BMW has invested £2 billion ($3.5 billion) in the ailing Rover group, but has seen Rover sales and productivity plummet in relation to other carmakers. Newspapers in Germany have reported that BMW will have invested £4.5 billion in Rover by the end of next year, and that losses for last year could total about £600 million.

Pischetsrieder was replaced by Joachim Milberg in what the *Economist* magazine described as "a Munich putsch". Milberg said on February 19 that Rover had 121 days to resolve its problems. At the same meeting where Pischetsrieder resigned, BMW executives agreed to give the go-ahead to manufacture the new Mini model at Longbridge next year. This will entail further investment of £400 million.

Significantly, however, BMW also decided to upgrade the Rover 200 and 400 models the factory presently produces, but refused to give any assurances that the new models will be produced at Longbridge. Were this to be a permanent arrangement, it would lead to the closure of the plant and the loss of around 50,000 jobs dependent on the plant.

The crisis facing the Rover group has led to its purchasing strategy being taken over by BMW and moved to its Munich headquarters. Earlier this month Rover issued an ultimatum to its suppliers instructing them to cut costs by 20 percent or lose orders. Last year Rover started to shift some 20 percent of its component purchases to suppliers in other European countries, in an attempt to offset the high value of the pound.

The company has scaled down its projected production capacity from more than 600,000 units last year to 450,000 this year. Even this cutback cannot conceal the depth of the crisis facing the company. Sales have fallen to record lows, with fewer than one out of 20 new cars sold in Britain last month being a Rover. Overall just 11,000 Rover models were sold in the UK last month.

As part of the December deal BMW lobbied the British government to put up to £200 million into the plant, in return for a further investment by the company of £1 billion. Any government aid forthcoming would be based on increasing productivity and cutting costs even further.

Several media commentators have called for the plant to be closed. A February 9 article in the *Daily Telegraph,* headlined"Factory is not a branch of social security. Close it!" commented, "Longbridge provides the first big industrial test of whether Labour really has replaced political expediency with economic reality when it comes to handing out our money. If car plants are to be treated as centres to generate wealth, rather than branches of social security, Longbridge should close."

In its February 13 issue the *Economist* pointed out that up to a third of all car plants in Europe will have to close if profits are to be maintained. "There is a particular madness into pouring money into marginal car factories. All told there are 300 vehicle assembly plants in Europe. The industry needs to shut down 100 of them. Over capacity in Europe is as much as 30 percent." The article proposed an end to all state subsidies for the auto industry, stating that governments had to allow "national champions to be taken over and old-fashioned plants to be shut".

All the major car manufacturers are seeking to implement cost-cutting measures in order to survive in an over-saturated market. Recently speculation has been rife that BMW may be taken over by either General Motors or Ford. Volkswagen has carried out tests and research on the feasibility of producing Rover models on VW platforms. The Daimler-Benz merger with Chrysler last May was followed by Ford's take-over of Volvo. A host of smaller auto companies such as Fiat, Mitsubishi, Nissan, Peugeot and Renault are threatened with take-over by the bigger conglomerates.

A report by the European consultants Cap Gemini noted that due to competition, mainly from the US and Japan, European car prices are falling faster than productivity is increasing. They estimate that by the year 2000 the difference between revenue and costs could be as much as $18 billion. Such a drain on profits would mean a sizeable number of car firms facing collapse.

Last month Jac Nasser, Ford's chief executive, stated that within a short period of time there would be only six large-scale carmakers in the world--two in the United States, two in Europe and two in Japan. This would entail a massive round of job losses as the main players seek to reduce their costs and staffing levels to a minimum.

The social cost of such rationalisations can be seen in the example of the French companies Renault and Peugeot. One forecast predicts that 50,000 job losses could result from a merger between the two firms, or with the Italian company Fiat.

Although Longbridge has been able to increase productivity over the five years since the BMW take-over, in comparison to other auto plants in Europe it remains one of the least productive. Longbridge produces just 33 cars per worker annually. This is on a par with Skoda's plant in the Czech Republic. By comparison, the Nissan factory in Sunderland produces 98 cars per worker per year.

Car manufacturers are moving away from the large mass-volume plants of the Longbridge type to smaller, more mobile factories producing perhaps 100,000 to 200,000 units a year. General Motors has recently set up two such factories, in Brazil and in Michigan in the US. GM is set to replace its large complex at Opel Rüsselheim in Germany with several much smaller factories.

Capital investment in plants such as Longbridge is very demanding, calling for the introduction and upgrading of equipment such as huge presses for shaping body panels. New developments in science and engineering technology are already rendering such processes obsolete. Models such as the Audi 8 and the Fiat Multipla people carrier are being manufactured by a method known as "space-frames", in which the separate components of the car are snapped together. A Canadian-based company is researching methods to shape body panels with water jets, doing away altogether with the need for presses.