Ford acquires Volvo car operations

Mergers sweep global auto industry

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Ford Motor Co., the world's most profitable carmaker, has bought the automobile operations of Swedish-based Volvo for $6.45 billion. This is a figure slightly less than Ford's last-year profits of $6.57 billion. The take-over is the latest in a frenzy of mergers and take-overs in an industry which has some 80 surplus assembly plants, able to produce around 15 million cars more than current demand. It follows last year's merger between Chrysler and Daimler Benz.

The take-over produced a flurry of concern around the auto industry, as chief executives intensified their efforts towards global consolidation. Jac Nasser, recently appointed Ford CEO, noted that while there were around twenty large players currently in the industry, there would soon be only five or six.

General Motors President Richard Wagoner informed the press that, while GM had not intended to engage in a bidding war with Ford over Volvo, the company was searching for other take-over targets, particularly in South East Asia. GM already has strong links with Isuzu and Suzuki. Ford has a cash pile of $16.9 billion with which to buy other smaller companies, such as Mazda, already 33.4 percent Ford-owned. Shares in Renault and Peugeot Citroen, other likely merger targets, leapt. Fiat shares, by contrast, fell as its own plans to merge with Volvo came to nothing.

Renault, Ford, GM, Fiat and Volkswagen are all engaged in talks with the ailing Japanese car producer Nissan on joint projects and possible share purchases.

Ford's purchase now brings the ferocious global competition in the small- and medium-sized vehicle sector into the market for larger, luxury vehicles. In Europe, the medium-sized car market is so saturated that dealers make almost no profit on sales, resting entirely on after-care for their margins.

Buying Volvo means Ford will greatly intensify competition in the luxury market through their ability to use Ford parts in Volvos, and rationalise distribution, delivering Volvos through Ford's own network. Ford's production of luxury cars will increase from 250,000 to 700,000 this year, with a target of 1,000,000. In the slightly longer term, they will use common vehicle platforms, engineering architecture and design capacity for Volvos, Jaguars, and the US luxury brand Lincoln. Lincolns and some Jaguars already share a common platform. Design alone for a new model can cost around $1 billion, a figure increasingly beyond the reach of all but the largest operations.

Ford itself is a miracle of social organisation, with a production and design process spanning four continents, mobilising, now with Volvo's 22,000 work force, 225,900 vehicle workers with a myriad of skills in 38 countries. It built 6.9 million vehicles in 1997, to which will be added Volvo's annual output of 400,000. It has an annual turnover of $153.6 billion, larger than all but the largest countries, and only slightly behind GM.

It recently displayed the world's largest hologram at the North American Car Exhibition, allowing potential car buyers to view all areas and working parts of an intended *P2000* car. Its design facilities have more computer animation capacity than Disney.

Ford will now control all of Volvo Cars' facilities world-wide, including three major assembly plants and two power-train plants in Europe, as well as Volvo's development centre in Gothenburg, Sweden.

For Ford employees, all other car workers and all those dependent on the auto industry, the merger brings only the certainty of increased workloads, less job security, and possible unemployment. So far, under Ford's *2000* plan to rationalise globally, cut jobs and crank up the exploitation of its remaining work force, the company saved $2.2 billion last year. It cut jobs in Argentina, Britain and Japan. So far this year, Ford has announced 8,000 job losses, including 2,000 in Europe.

Last fall Volvo shut down its Halifax, Nova Scotia auto plant, eliminating hundreds of jobs, and the company has begun a consolidation of its heavy equipment, truck and bus operations in Europe.

An expression of the degree of global integration in the industry is that the purchase of a Swedish company by a US-based one will most immediately hit car and truck workers in a third country--Britain. The sale of its car division to Ford will enable Volvo to concentrate on building trucks and buses, in which it is a major world player. Industry analysts reckon that, with the cash accrued from the car divisions sale, Volvo will be able to purchase Swedish truck building rival Scania, to form a company with 13 percent of the world's truck and bus sales. As preparation for such a move, Volvo are closing peripheral plants, including a small truck and bus facility in Irvine, Scotland. This will cost 500 workers their jobs by July next year.

The future of Ford's Dagenham plant in Essex, which employs 7,500 workers--already on a four-day week since October--and facing 25 days' shutdown between February and April, is in question. An article in the *Independent* newspaper noted that Ford had already rejected converting the Dagenham plant from its ageing Fiesta model, sales of which are collapsing, to produce Volvos. Ford has modernised its entire small car range, but none of the new models are produced in the UK. European sales fell by 20 percent last year and market share by 10 percent. Departing Ford chair, Alex Trotman, warned that British plants were 20 percent less productive than the best US plants. "We attribute that to work practices, excessive indirect labour costs and infrastructure [costs]. Productivity is not what it should be."

The Volvo take-over will also intensify pressure on BMW-owned Rover, which this week announced that thousands of car workers would lose their jobs. This is only months after a package agreed with the trade unions, which pushed through 2,500 redundancies and new working time arrangements. Rover's new flagship, the *R75*, which is hoped to sell 140,000 next year, is in direct competition with similar Volvo models. BMW head Werner Samann said, "My task is to significantly reduce our cost base and we must become faster on our feet--more flexible. And yes, I'm afraid there will probably be more job losses, possibly several thousand, although they will be voluntary redundancies."

Other major auto-related mergers have occurred in recent weeks. US automotive supplier TRW outbid Federal-Mogul Corp. and purchased British LucasVarity PLC for $7 billion. The acquisition, which will create the fifth largest automotive supplier, will produce $200 million in cost-savings, primarily eliminating duplication and closing plants. On Wednesday, Goodyear Tire & Rubber Co. announced its plans to acquire 10 percent of Japan's Sumitomo Rubber Industries. The same day Goodyear, once again the world's largest tire manufacturer, announced a new cost-cutting drive that will eliminate 2,800 employees world-wide.