Deal between British government and BMW--Rover car plant gets stay of execution

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The British government has agreed to provide more than £150 million in subsidies for German auto concern BMW to continue production at Rover's Longbridge car factory in the West Midlands. Even if agreed by the BMW board the deal offers only a temporary reprieve. It by no means secures the long-term future of workers either at Longbridge, or within BMW itself.

If the Longbridge factory were to close the implications would be far reaching. The Rover group employs 39,000 people internationally, 12,000 at Longbridge. A further 110,000 people work for companies supplying Rover with production materials and services. It is estimated that the loss of the West Midlands plant would mean the destruction of some 50,000 jobs in related industries in the area. The Rover group has annual sales of £6,500 million and exports its vehicles to about 130 countries, earning £3,200 million in overseas sales each year. It is the UK's third largest exporter.

At the beginning of this month, Stephen Byers, the Secretary of State for Trade and Industry, announced that the government had reached an agreement with BMW chairman Professor Joachim Milberg. BMW were asking for a subsidy of more than £200 million.

The German company bought the UK car group for £800 million five years ago. It has since invested £2.5 billion in Rover and is expected to put up an additional £1.7 billion. Rover losses were £642 million last year and they are expected to lose a further £350 million this year. BMW had threatened to shift production of Rover models to Hungary, where they were offered a free site and the benefit of much reduced production costs.

When British Aerospace placed Rover on the market in 1994, it was one of the few car companies still making a profit. The British car industry at that time had the lowest total labour costs in the world, while Germany had the highest. Average German labour costs were £19 per hour in 1993, compared with £10 per hour in Britain. Much of the difference was due to the UK's lower social costs. Social contributions, like National Insurance, accounted for only 27 percent of total wage costs in Britain, while in Germany they made up 43 percent. Even Italian labour costs were 6 percent above the British level.

As a specialist producer for the luxury car market, BMW faced stiff competition. Rover gave the company access to new and lucrative markets, through acquisition of the Land Rover and Range Rover, four-wheel-drive models that are sold widely in the Far East and the United States. Through the development of the Longbridge plant, BMW aimed to produce a vehicle for the small car market without downgrading the BMW name. Also, due to its relations with Honda who owned a 20 percent share in the company, Rover had already implemented Japanese "flexible" production methods.

Despite this, Rover has turned out to be a rather costly white elephant. A fiercely competitive world market has hit the company hard. The high value of the pound has reduced its sales overseas and within Britain. BMW chairman Joachim Milberg said that despite reducing the productivity gap between Rover and BMW plants from 30 percent to 20 percent, the Longbridge plant was unlikely to meet its break-even target by 2000 or 2001. This is in part due to the original target being set when the pound was worth DM2.30. It currently trades at DM2.90, costing the group £480 million in annual profits. "If the pound entered the euro today at DM2.50 that would save us far more than we are asking the UK government for," a company source said.

The crisis confronting BMW led to bloodletting within its top management, with the loss of Bernd Pischetsrieder and Wolfgang Reitzle. It was Pischetsrieder who, five years ago, persuaded the Quandt family, owners of 46 percent of BMW's shares, to buy Rover. Pischetsrieder resigned his post following a 12-hour board meeting on February 5 at BMW's Munich headquarters. His anticipated replacement, Reitzle, was expected to carry out sweeping rationalisations at Rover, scrapping all but production of Land Rovers and Minis and thus closing Longbridge. But trade union officials on the BMW board in Germany opposed this, and Milberg was selected as a compromise candidate.

BMW first responded to the crisis with repeated threats to close the Longbridge plant, in order to beat the work force into accepting new work practices and pay cuts. In December last year this led to a groundbreaking agreement between management and the British unions that included 2,500 job losses and the introduction of flexible contracts. In return BMW promised a further £2 billion investment programme.

With trade union collaboration, BMW were able to go a long way towards establishing their dictates over the work force. The company then turned its attention to British government policy. With the demand for state aid--the first of its kind by the company--BMW are making clear that the interests of the transnational corporation stand above national government policy.

This has not convinced financial analysts that the future of either Rover or BMW is secure. The April 3 edition of the German paper *Süddeutsche Zeitung* says:

"Analysts regard BMW strategy for Rover with scepticism. The Deutsche Bank valued BMW shares downwards. 'We have the feeling that BMW does not have a clear strategy for Rover,' said analyst Christian Breitsprecher. 'It remains open how the mid-range models Rover 200 and 400 will be positioned in the market. Subsidies do not change the evaluation analysts have made regarding fundamental problems. Rover will probably continue for the next three to four years in the red,' Breitsprecher predicted."

The British magazine the *Economist* is even more critical. It said of the February board meeting, "The BMW row raises two other big questions. What will happen to the company now? And could this Munich putsch accelerate consolidation in the car industry?"

Following the February 5 board meeting, the firm's share prices leapt by 10 percent in anticipation of a possible merger of BMW with either Volkswagen or Fiat. But the Quandt family appears determined to hold on to the company's independence.

This could prove disastrous. BMW still makes a relatively high return world-wide, but over half its profits come from one model range, the 3-series, selling around 400,000 a year. The company is facing increasing competition from the Mercedes C-class, VW's Audi A4, the new small Jaguar and Fiat's Alfa Romeo brands.

Moreover, the car industry is suffering from global overcapacity, estimated at around 30 percent. This has fuelled an increasing tendency towards consolidation and mergers, the largest of which was between Chrysler and Daimler-Benz last May. Daimler-Chrysler's co-chairman Robert Eaten said recently that the industry would soon have the capacity to produce 23 million more cars than it could sell. Jac Nasser, chief executive of Ford, said that there would soon be only six makers of volume cars in the world--two in America, two in Europe and two in Japan.

Even with Rover, BMW ranks only eighth among the world's auto companies. It is this that has led to scepticism over the company's long-term viability.

These considerations also prompted harsh criticism of the Blair government in Britain for its attempt to maintain production at Longbridge. The same *Economist* article speaks of government as a "big obstacle to European consolidation" and denounced the "fuss the British government is making about Longbridge".

"The trouble is that a resort to subsidies to keep plants open, or the maintenance of barriers to imports such as the EU's [European Union] quotas on Japanese cars (which are due to go next year), or an addiction to the defence of national champions, may conspire to make Europe's car industry less competitive not more. Barriers to closures and sackings, in the form of heavy-handed rules about worker consultation or rigid labour laws push the same way. Mergers and consolidation across borders will help the European industry only if these attitudes change," the magazine wrote.

Whatever the immediate future of BMW, it is clear that the tendency towards mergers within a saturated world market demands massive job losses and the destruction of many established work practices. If Longbridge survives under these circumstances, BMW will seek to close the 20 percent productivity gap between Rover workers and their German counterparts through brutal speed-ups and rationalisations.