Takeover of British Rover plant: thousands of jobs still at risk

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The announcement Wednesday, May 10 that the German car manufacture BMW had sold its British subsidiary Rover Cars to the Phoenix consortium was greeted with jubilation by workers at the company's Longbridge plant near Birmingham in the West Midlands.

They had feared that BMW's decision to extricate itself from the loss-making Rover group threatened up to 50,000 jobs, including 9,000 workers at the Longbridge factory and thousands more who work for suppliers and dealerships. Phoenix has said it will keep job losses to 1,000 and will maintain volume car production at the plant.

Almost immediately the Blair government trumpeted the deal as a victory for its "Third Way" policies. Trade and Industry Secretary Stephen Byers said, "The government has not played the old role of throwing money at a problem in the hope it will go away, but neither have we adopted the laissez-faire attitude of the last government—just standing to one side and doing nothing." The unions too described the deal as "tremendous news" that would safeguard jobs.

This is so much hot air. The BMW-Phoenix deal has done nothing to secure the long-term future of the Longbridge plant. So desperate was BMW to find an escape route from Rover—whose drain on profits led it to being dubbed "the English patient" by the German press—that it was sold on to Phoenix for a symbolic £10 ($15.32). Since BMW acquired Rover in 1994 for £800 million, it has spent an estimated £3 billion ($4.59 billion) on the group. Over the last months it was estimated to be losing £2 million a day—£1,500 on every car produced.

According to confidential documents obtained by the *Financial Times*, BMW had just completed a radical restructuring of Rover aimed partly at minimising redundancy liabilities to the new owners. They have also provided Phoenix with a loan of £500 million to finance further restructuring at Longbridge, and fund redundancy payments and other contractual liabilities. The Birmingham plant will continue to produce the Rover 25, 45, MG F sports car and the current Mini. These will be produced under licence to BMW—a condition insisted on by Ford as part of its own £1.73 billion deal with the German carmaker to buy the Land Rover subsidiary. BMW has also agreed to shift production of the Rover 75 to Longbridge from Cowley, placing this plant's long-term future in doubt.

Further details on the final agreement remain under wraps—most notably concerning redundancy packages and dealership contracts. A BMW press statement warned ominously, "All parties, the state, the employees, the trade unions, the suppliers and our dealers will have to contribute their share."

Whilst the Phoenix consortium, headed by former Rover director John Towers, was the preferred choice of the Blair government for a take-over, it had little say in the matter in reality.

BMW had consistently spurned Phoenix's advances, citing its inability to raise any significant finance, and had appeared certain to close a deal instead with British venture capitalists, Alchemy Partners, despite protests from the government and unions. Alchemy made clear they intended to lay off more than one-third of the Longbridge workforce, and scale down production to concentrate on the niche sports car market. But two weeks ago BMW's talks with Alchemy broke down. The venture group pulled out of negotiations at the last moment, in a dispute over who would finance the redundancy bill—estimated at $750 million.

As leasing and contract hire companies announced that they had started to refuse contracts on Rover cars, further fuelling losses, it became clear that BMW's own fate was in the balance. With a shareholders' meeting due on May 16, BMW announced they would close the plant within three months unless Phoenix came up with the requisite

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finance. Some 48 hours later, no doubt with some form of government assurances, Phoenix announced that it had been offered £200 million ($306 million) to finance its bid through a British subsidiary of the US First Union bank, Burndale Financial. The offer was conditional and subject to "due diligence", Burndale said.

Phoenix was the beneficiary of an unexpected turn in the market. The government, fresh from its drubbing in the local elections, boasted it had played an "active role" in bringing Phoenix and BMW together, and that this was proof that Labour could exert significant political pressure on corporations, without "bucking the market". This gives no cause for celebration. Not only do jobs at Longbridge and Cowley remain under threat, but also those of thousands of other autoworkers throughout Britain and Europe are equally subject to the vagaries of a market bedevilled by overcapacity. Production of cars in Western Europe has stagnated at 14.4 million cars a year, but the estimated ability to produce cars is over 21 million. The six million shortfall between demand and capacity is equivalent to nine plants the size of Longbridge, and demands that further closures and job losses be made throughout Europe.

Although BMW's share price rose by 5 percent on news of the sale, the company is facing increasing competition in the global auto market and, until the Rover sale at least, was itself considered a prime target for take-over.

The crisis in the European auto industry was graphically highlighted by Friday's announcement by Ford that it will close its car assembly plant in Dagenham, east London early in 2002. The company tried to sweeten the blow by saying it would limit job losses to 1,500 through additional investment in the plant's diesel-engine production, but the news ends 70 years of Ford's car assembly in Britain. Production is being shifted to Germany, where Ford's market share fell below 9 percent last year. The company considers the rebuilding of sales in Germany—which accounts for 25 percent of all Europe's car sales—as vital to its future operations on the continent. Ford's European operations lost $55 million last year. In a *Financial Times* interview, Nick Scheele, chairman of Ford Europe, said that the group "are seeking tough cost reductions across Europe"—their Belgium factory in Genk could be another target for closure.

Ford's announcement highlighted again the divisive role played by the trade unions. During the months of uncertainty over Longbridge's future, and despite strong signals of job losses at both Honda and Ford factories in Britain, the union leaders made no attempt to link up the struggles of workers at the different companies. Union representatives at each plant regard the workers at another company as their competitors. The common cause made between management and the unions is seen just as clearly at a national level, where the unions lead demands to defend "Britain's competitiveness". In Rover's case, this saw them leading chauvinist campaigns and demonstrations, demanding that German workers should lose their jobs.

The real concern of the union leaders throughout the crisis at Longbridge was how they would preserve their own privileges and safeguard relations with the new management. Tony Woodley, chief negotiator for the Transport and General Workers Union (TGWU), has been tipped to replace Bill Morris as the organisation's general secretary. He will have won kudos for enabling the government and BMW to manage the Rover crisis, and particularly for ensuring the success of the Phoenix bid.

Phoenix are now heavily dependent on the unions to deliver further cutbacks and speed-ups. Had BMW retained ownership of Rover, it planned to cut a further 4,000 jobs, raise productivity by up to 30 percent and shift abroad more than half of the current volume of component work currently supplied to Rover. Even then it would still have made a £700 million loss.

Most market commentators foresee that the Phoenix operation will end up looking very similar to that planned by Alchemy. Far from producing 275,000 cars a year, the actual number could well be around 150,000, or even lower. To try and tie workers into a significant increase in exploitation, Phoenix are proposing to make the workforce partial shareholders.

Even so, both Phoenix and Byers admitted that the rescue plan was only viable for the short and medium term. The consortium would need a link-up with a worldwide auto producer to safeguard the company's survival, they said, and the *Times* newspaper has reported that Honda may be interested in taking over a "transformed" Rover. The two companies had a close working relationship prior to BMW's take-over. However Honda, which posted a 14 percent fall in pre-tax profits, denied the reports.

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