World financial crisis leads to auto industry layoffs across Europe

Dietmar Henning
10 October 2008

While governments across the globe are pumping billions into the tills of banks in order to limit their speculative losses, millions of workers whose jobs and incomes are threatened will be left stranded. Worldwide, all of the major auto companies have announced a drastic slump in sales and have introduced reduced production or direct dismissals.

Much of the current crisis in the auto industry is bound up with the fuel price increases at the beginning of the year. The consequences of the current financial crisis are only just beginning to take effect and will undoubtedly be much more pronounced in coming weeks.

The markets for luxury cars and massed-produced ordinary autos have both been hit. Until now the expensive sports cars and luxury autos produced by German companies Porsche and BMW were especially favoured by those who were able to reap huge fortunes on speculative financial transactions and could easily lay out several tens of thousands of euros for a new vehicle. Many in this layer are now jobless and can no longer afford a new car.

The *Süddeutsche Zeitung* reports on the sports-car producer Porsche: "So far Russia was regarded as a guaranteed customer for the small sports car manufacturer. If a market gave way somewhere, Russia was easily able to adjust the balance. The Porsche family was always able to find enough wealthy people ready to buy up their annual production of 100,000 cross-country and sports cars. This now seems to be in the past."

The BMW company, which like Porsche specializes in high-priced cars, announced a 14 percent decrease in sales worldwide for September. BMW sales in the US have decreased by as much as a quarter in the same month. Porsche registered a decrease of 44 percent in the US and an average loss worldwide of 27 percent.

Sales are also slumping for ordinary cars. Toyota, the world's largest carmaker, also suffered a 32 percent drop in sales in the US in September. Many potential customers are fearful of the consequences of the crisis and are not prepared to invest in a new car. Others are unable to obtain the necessary credit from their bank. According to the Ifo Institute for Economic Research at the University of Munich, the expectations of German auto salesmen have slumped to a 20-year low.

A spokesman for Opel (General Motors) at Rüsselsheim commented: "The financial crisis has led many people in Europe to hold back from purchasing an auto." This applies particularly to Spain, Germany and Great Britain.

Auto sales in Spain, which is particularly hard hit by the real estate crisis, are 44 percent lower than a year ago. According to the calculations of the CAR research institute in Gelsenkirchen, Germany, sales in the Italian market will drop at least 14 percent this year, the US market 13 percent, the UK market 5 to 6 percent, and the German market up to 2 percent.

Although the effects of the crisis are only beginning to be felt, auto companies have immediately reacted with production shutdowns and layoffs. For some time the automobile industry has complained about overcapacity. It is now utilizing the crisis to carry out plans it had been unable to implement up to now due to workforce opposition.

Swedish car producer Volvo (belonging to the Ford company) has already announced the dismissal of an additional 3,000 workers, bringing its total current level of layoffs to 6,000. Company boss, Stephen Odell, declared the job losses were necessary because of the "rapidly disintegrating market situation of the worldwide automobile industry."

In Germany, the Ford factory in Saarlouis is dismissing approximately 200 temporary workers two months earlier than planned. The factory in Saarland has a total workforce of 6,500 and produces mainly for export.

Bavarian auto producer BMW is introducing production stops at its Leipzig factory and further temporary shutdowns are planned at other plants. BMW plans to produce 20,000 to 25,000 fewer cars this year compared to 2007.

Daimler already announced this summer that it planned to cut output this year by around 45,000 vehicles.

While Volkswagen has so far declined to slash production, it is delaying the opening of new factories. Announcing this decision, VW finance chief Hans Dieter Poetsch, blamed the "considerable deterioration" of market conditions.

Skoda, the Czech Volkswagen offshoot, is planning to limit production by 13,000 vehicles fewer than last year. The company halted production for one day this past Friday.

The most radical plans have been announced by Opel, the European subsidiary of General Motors, which plans to cut production by approximately 40,000 vehicles by the end of the year. The Opel factory in Eisenach, with a workforce of 1,800, is to close for three weeks starting next Monday.

In Bochum, the Opel factory with 5,000 workers had already closed for two weeks at the end of September in line with a deal worked out between company management and the factory council. A further shutdown of the factory is planned for the end of October. Opel has declared that it will cease production October 20-31, at its entire European works, with the exception of Rüsselsheim. This will affect the Opel factories in Kaiserslautern, Germany; Gliwice, Poland; Ellesmere Port and Luton, England; as well as Saragossa, Spain.

Opel spokesman Andreas Krömer justified these measures, commenting, "People are worried and keeping their hands in their pockets. Demand has hit rock bottom. We must react with an adjustment. We cannot build cars on a waste dump."

In fact, Opel has been preparing job cuts and attacks on working conditions for some time. According to the works council at the Bochum Opel factory, 900 jobs are at risk there due to the slump in sales. Company management has estimated that tighter work schedules and new automation could reduce production time for a car from 27 to 15 hours.

The crisis in the automobile industry will lead to a veritable avalanche of dismissals. A total of 2.1 million workers are directly involved in the European automobile industry. This figure rises to 12 million when all auto-related industries are included.

The throttling back of production directly affects the auto supply industry, which often consists of middle-sized companies operating with narrow profit margins. Auto distribution, sales outlets and other services will also be hit. In Germany alone, an estimated 468,000 are employed in these sectors. Such companies employ an average of 12 workers, and many of these businesses are already highly indebted.

Like the banks, the major auto companies are now also demanding money from the state. In the US, the House of Representatives agreed to a draft on Wednesday making $25 billion available to automakers in the form of low interest credits.

German manufacturers have criticized this move. "This leads to a distortion in international competition," was the comment by German Automobile Federation (VDA) head, Matthias Wissmann.

Such criticism of the US has not prevented the European automobile industry from demanding similar support from the European Union. Manufacturers are demanding various support measures, including a low interest credit package of over €40 billion for the development of more economical vehicles, plus incentives for customers to exchange their cars for newer ones.

The major companies and their shareholders stand to profit from such measures. The workers who lose their jobs cannot bank on support. In Germany the government decided just this week to cut contributions for unemployment insurance beginning next year by around 0.5 percent. This measure was aimed at decreasing subsidiary wage costs for the employers.

The immediate consequence of this decision will be decreased funding for the Federal Labour Agency, which will have even less money at its disposal for the tens of thousands of autoworkers who are likely to lose their jobs in the near future.