German auto parts industry hit by bankruptcies

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While the large German auto manufacturers are cutting back production, introducing short-time working or sending workers on an extended Christmas break, the auto parts industry is being hit by a wave of bankruptcies. Three of the larger companies in this field have declared bankruptcy within the last few days: TMD Friction, Tedrive Germany GmbH and Wagon Automotive GmbH.

TMD Friction has factories in 15 locations in 11 countries. This world leader for brake linings employs 4,500 worldwide; its turnover in 2007 was €690 million. It employs 2,000 workers in its German factories in Leverkusen, Essen, Hamm and Coswig, with half of them at the Leverkusen works.

The workforce now confronts an uncertain future. At workplace meetings last Thursday, the liquidator, Düsseldorfer lawyer Frank Kebekus, explained that his first discussions with banks, suppliers and customers had been “positive.” He believes that the company could be sold off as a whole. He said financing was in place to pay salaries for the next three months, although wages due in December could not be paid on the 15th as usual. Starting in February 2009, employees would then receive three months pay from the insolvency fund.

However, staff were told to prepare for cuts and dismissals. Most of the workforce has been sent on their Christmas vacation beginning this week. Some production is scheduled to recommence on January 5. There are no plans for short-time working at the Leverkusen headquarters, but there will be reduced hours at the other three German factories until May.

Especially hard hit are older workers who signed an early retirement agreement and are waiting for the promised compensation. Kebekus said this could not be paid at present, and payment later out of the proceeds of the liquidation was also uncertain, with it being possible that only a small part of the sum agreed upon would be paid.

Tedrive Germany GmbH, which also declared bankruptcy, develops and produces drive shafts and differentials in Düren near Aachen, as well as manufacturing steering systems in Wülfrath near Wuppertal. In Düren there are approximately 900 employed, with 800 in Wülfrath. The enterprise was formed in 2007 out of Visteon GmbH, which was itself floated off from the Ford.

Wagon Automotive GmbH employs 650 people manufacturing car body parts in Aschaffenburg. Managing director Helge Bender announced that insolvency would “also mean shedding personnel.” The bankruptcy was brought about because of the inability of the British mother company, Wagon PLC (Birmingham, UK), which employs 6,300 worldwide, to meet its obligations.

Objects of speculation

The “just in time” methods now used by auto manufacturers means a halt or cutback on production has an almost immediate effect on their suppliers. Parts supplied are no longer stored temporarily by the auto companies but are delivered “just in time” according to current production needs. In this way, the auto companies save expensive warehousing costs. However, if there are delays in the supply chain, the entire manufacturing process is immediately affected.

The collapse of car sales means parts suppliers are left holding their products. The logistics industry, whose large fleets of lorries move both parts and finished cars, is also hard hit. Germany’s largest steel producer ThyssenKrupp Steel has also announced short-time working due to the fall in orders from the automobile industry in the next year.

However, the wave of bankruptcies in the supply industry is only partly a result of the decrease in car sales. The situation has been intensified by the activity of financial speculators.

For many years, the large auto companies have lowered production costs by transferring aspects of production into these ancillary industries, where costs are substantially less due to the lower wages and harsher working conditions. This took place with the direct support of the supposed “workers representatives” on the Works Councils and in the IG Metal union.

These ancillary industries then became attractive for acquisition by financial speculators, who financed their purchases by raising high debts against the companies they had acquired. As a result, they face insolvency if there is just a small collapse in sales. They cannot absorb the fallout from the collapse of car sales, and their lack of liquidity means they must quickly declare bankruptcy.

Tedrive, for example, is owned by the private equity company Orlando Management; Wagon PLC belongs to the American billionaire Wilbur Ross. TMD Friction was taken over in 2001 by the British private equity company Montagu for €776 million. In 2006, Montagu then gave up control to outside interests, including a group of hedge funds that now include the Davidson Kempner, Clearwater and Eos funds.

In Germany between 2000 and 2005, the number of acquisitions of larger auto parts suppliers by private equity companies more than trebled. One paper noted that it was remarkable that "the majority of those 15 suppliers who had asked the state government [in North Rhine-Westphalia] for financial support were owned by financial investors."

The situation is made more difficult by the fact that the banks, although in receipt of funds from the €500 billion federal government rescue packet, are failing to pass on this money to small and medium-sized enterprises.

"Most of the companies that are slipping only face a liquidity problem, for which clearly the banks are responsible," said automobile industry expert Stefan Bratzel.

The president of the automobile employers association (VDA), Matthias Wissmann, put it like this: "It should not be the case that individual banks use the drastic collapse in orders as an opportunity to turn off the money for the parts suppliers, endangering jobs, while themselves receiving a €500 billion emergency parachute from the federal government."

According to the VDA, "Over the last weeks, news from auto parts supply firms is accumulating that some commercial banks, also including some of the state banks, are increasingly raising the price of credit, withdrawing credit or demanding repayment of credit at short notice."

The VDA is also discussing its own rescue fund for crisis-hit suppliers, to which auto manufacturers such as Daimler, BMW, or Volkswagen should contribute. But it is unlikely to come about, "There are still questions about competitiveness," a VDA spokesperson said.

Five years ago, the auto manufacturers organized such a rescue package for the plastics parts specialist Peguform. Since the insolvency of this company would have endangered the supply of parts to several auto producers, they provided it with interim credits. At that time, Peguform had to announce bankruptcy despite a full order book, because the owners at the time, Venture Holdings, had withdrawn their money.

Bankruptcy wave swells

The three parts suppliers that announced bankruptcy last week are only the tip of the iceberg. Arndt Kirchhoff, boss of Kirchhoff Automotives, describes the situation as dramatic: "Every day one more is tumbling, and we hear nothing about the smaller companies."

This was confirmed by the credit insurance company Euler Hermes, which belongs to the Allianz insurance company. According to its figures, the number of bankruptcies in the vehicle construction industry nearly trebled in the third quarter compared to the previous period. "The auto parts supply industry is particularly hard hit," according to Hermes chief economist Romeo Grill.

Germany's more than 500 auto parts supply businesses employ approximately 330,000 people. "The names of about 80 companies that face imminent danger of bankruptcy are circulating in the branch," said Marcus Berret, a management consultant with Roland Berger.

Despite an occupation by the 100-strong workforce, the axle and tool manufacturer HWU seems finally set to close. Management are already in negotiations with the Works Council about how to handle the closure.

Many other companies are seeking to avoid a crisis by extending the Christmas break, as well as sacking those on fixed and part-time contracts. Many have also announced short-time working.

The world's largest parts supplier, Bosch, is sending tens of thousands of its employees on an extended Christmas break. At its Stuttgart headquarters the production lines will stop on December 22 and remain stationery until January 7. At the Bosch works in Bamberg and Salzgitter, short-time working has been negotiated. Other manufacturers, such as Delphi in Wuppertal or Hella in Lippstadt, have announced the same—short-time working and an extended Christmas holiday.