

Swedish automaker Saab seeks bankruptcy protection

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Last Friday a Swedish court gave the go-ahead for automaker Saab to be given temporary bankruptcy protection to enable it to carry out a "restructuring" programme. The automaker, owned by troubled US firm General Motors, faces bankruptcy with the threatened loss of thousands of jobs.

The decision will virtually separate Saab from GM, with a court appointed administrator given 90 days to find buyers for parts of the auto company. As CEO Jan Ake Jonsson commented, "We are now recreating Saab Automobile as an independent unit."

But with GM set to end financial backing by the start of 2010, auto analyst Michael Tindall observed, "In the current environment, and in light of its cost disadvantages, it will be difficult to find a buyer, and I don't see a viable future as a stand alone."

The decision to seek temporary bankruptcy was taken in the wake of the refusal of the centre-right Swedish Alliance government to provide financial support to Saab, which has been seeking a bailout along with Ford-owned Volvo. On February 17, in its presentation of restructuring plans to the US Congress, GM stated that Saab could be forced to file for bankruptcy "as early as this month," if it were not provided with backing from the Swedish state.

GM's plans, which will see job cuts of 47,000 worldwide this year, also threatens lay-offs at Opel factories in Germany and in the UK at the Vauxhall plant in Luton.

In refusing any financial support for the ailing automaker, Enterprise Minister Maud Olofsson attacked GM for refusing to help Saab. Attempting to present herself as a defender of taxpayers' money she declared, "Voters picked me because they wanted nursery schools, police and nurses, and not to buy loss-making car factories."

The move puts thousands of jobs under threat, with 4,100 employed by Saab across Sweden. In the town of Trollhättan, where Saab is based, fully 3,700 workers are employed by the company. According to trade union sources, 15,000 additional jobs are directly dependent on

Saab and face an uncertain future.

While opposing any action to safeguard workers jobs, when the interests of the ruling elite are threatened there is no shortage of financial support from the state. The Swedish government's withholding of aid to Saab took place barely two weeks after another multi-billion kronor package of measures was adopted to prop up the banking sector. This comes only four months after a 1.5 trillion kronor (\$200 billion) rescue package was agreed upon.

The 50 billion kronor scheme agreed upon at the beginning of the month will see the government offering to buy up to 70 percent of any share issues that the banks make. To date only Swedbank has agreed to participate in the government programme due to the modest restrictions that the plan places on executive pay and bonuses.

Since the collapse of Lehman brothers last September and the subsequent financial crash, Swedish banks have been struggling. Many have extensive exposure in Eastern Europe, particularly in the Baltic states, which are in deep recessions. Figures illustrate the difficulties facing Swedish banks, with all seeing a significant decline in profit rates. Earlier this month, Handelsbanken, Nordea and Swedbank reported results considerably lower than expected.

Losses have also been suffered by investment companies, with Investor controlled by the Wallenberg family, one of Sweden's richest, making a loss of 36 billion kronor in 2008. Its investments in SEB bank accounted for much of its losses, but the company's CEO Börje Ekholm admitted, "Although we had previously expressed concerns about risks in the financial system and its effect on the real economy, we failed to see the force and speed of the correction."

The bailout to the banking sector comes as recent studies illustrate the sharp growth in social inequality in recent years. The trade union confederation published a survey stating that average income for the business elite stands at 50 times that of a worker. Leaders of investment firms earn the equivalent of 95 industrial workers.

This process will only be exacerbated as the economy continues a steep slide, with forecasts for growth in 2009

being continually reduced. They now stand at a 1.2 percent contraction, although the Riksbank (central bank) has forecast 1.6 percent. Unemployment has been rising steadily in recent months, and the government will face a budget deficit of at least 1.0 percent this year.

The latest unemployment figures, which appeared the day before Saab's announcement, showed joblessness rising 14 percent in just one month, up to 7.3 percent from 6.4 percent in December. The Riksbank, together with central banks across Europe, has reduced rates sharply to 1.0 percent in a bid to stimulate economic activity. It announced last week the extension of long-term loans to business to improve liquidity in the market.

The economic decline has hit the auto industry hard, with sales dropping dramatically in 2008. The auto industry accounts for 15 percent of GDP in Sweden, with 140,000 people employed directly in a country of nine million. For Saab, sales dropped to just 93,000 units, down from over 120,000 just three years earlier. In October, 600 job cuts were announced, and in December plans were brought in to cut production. Bil Sweden, a trading group representing the auto industry, reported that car sales were down 17 percent, while truck sales also fell by 9 percent last year.

Job cuts have also been announced by Volvo, which suffered major losses in 2008. In December, Ford put Volvo up for sale as it sought to reduce costs in order to obtain emergency loans from the US government. While Volvo does not face the immediate threat of bankruptcy, almost 3,000 jobs have already been lost in Sweden, part of the company's strategy of cutting 6,000 jobs worldwide.

Announcing the decision to seek protection from its creditors, Saab CEO Jonsson said, "Many have already suffered considerably as a result of the crisis in the automobile industry and sacrifices will be a part of our future, but after a period of tough decisions we will have laid the foundations for a new beginning."

That "new beginning" will almost certainly not see Saab preserved in its current form, but will involve substantial job cuts in a bid to secure investment and potential buyers for parts of the business.

As the auto industry has been thrown into crisis, the government took steps in December to offer limited loan guarantees to the industry totalling 25 billion kronor. Twenty billion kronor of this will be directed to the production of emissions friendly vehicles, whilst 5 billion kronor was reserved for emergency rescue loans. However, Enterprise Minister Olofsson has stated that Saab's restructuring plan is "unsustainable" and has refused to offer the company assistance from this fund.

The government programme also offered the possibility of tax breaks for some firms, including corporation tax, and

smaller loans directed to small and medium sized business. Even members of the government do not expect such measures to be capable of preventing a further economic slump. Finance Minister Anders Borg, speaking at a European Union meeting in late January, stated that he saw a crisis in the real economy as "probable," adding, "This really emphasizes that we need to implement powerful measures in order to restore stability in the banking system."

The government's failure to provide direct support to the auto sector has produced criticism from the opposition, with the Social Democrats urging state support for Sweden's auto companies. Social Democrat economics spokesman Tomas Eneroth declared that the government had "a heavy responsibility" to step in to protect jobs at Saab. The Social Democrats have seen their popularity plummet since the onset of the economic crisis. The most up to date polling results showed only 36 percent support amongst voters, down from close to 50 percent at the beginning of 2008.

All of the major political parties, together with the trade unions, have reported a sharp decline in members over the past year, an expression of the growing alienation of ordinary people from the established political set-up. Five of the seven parties currently in the Riksdag have lost almost 10,000 members, the largest fall being in the governing Moderate and Liberal parties.

The Left Party, which has attempted to present itself as an alternative to the current right-wing government, is also expecting membership to fall. Having dragged its feet over a coalition between itself, the Greens and Social Democrats at the end of last year, the Left Party has since embraced the idea of a common platform for upcoming elections due in 2010. The inability of any of the political parties to provide support for working people during the current recession, whilst making billions available for the banking and business elite, will only fuel opposition from ordinary people.



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