Sweden: Saab granted three-month extension in bankruptcy protection

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A local judge has given Swedish automaker Saab a further three months protection from creditors, as it seeks to find a buyer. The General Motors-owned firm began restructuring in February and will now have until August 20 to finalise a deal on its future ownership.

Saab spokesmen insisted that it was unlikely that the whole three-month period would be required, with hopes remaining of a deal being finalised this month. The most likely candidates are said to be Italian automaker Fiat, Swedish luxury carmaker Koenigsegg and a US financier Ira Rennet. Earlier reports that Chinese firm Jeely was a leading contender have proven incorrect, as it now appears that the company has withdrawn its bid.

With General Motors announcing bankruptcy on Monday, the search for a new owner assumed increased urgency. The US automaker has already announced that it will cease funding Saab's operations by the end of the year. Nonetheless, Saab CEO Jan Ake Jonsson remained optimistic, claiming that GM's bankruptcy would have no impact on the sale of Saab. "It does not affect the process of carving out the Saab organisation from GM, ensuring future financing and finding a new owner...no impact whatsoever," he stated.

The decision to leave Saab out of the deal between German-based Opel and the Austrian-owned Magna auto parts maker has raised concerns over Saab's future viability.

Any prospective buyer will be confronted by Saab's extensive debt, the largest amount of which is owed to GM. Saab owes over $1 billion to its current owner, as well as over 300 million kronor to the Swedish state. The company has been in decline in recent years, with sales falling below 100,000 units in 2008. Sweden's Prime Minister Frederick Reinfeldt commented on May 30, "I believe that anyone who has followed this closely realises that this is a very vulnerable and difficult position that Saab is in."

Regardless of who finally takes control of Saab, workers are faced with job cuts and wage reductions. Saab employs 4,000 in Sweden, and up to 15,000 jobs are dependent on the automaker. Seven hundred workers have already been laid off since February.

This is only the beginning of a complete restructuring of the business. Guy Lofalk, who was appointed by the court to oversee Saab's restructuring during bankruptcy protection, has noted that all candidates have agreed to a business plan that includes cost-cutting measures such as the concentration of production at Saab's main factory in Trollhätten.

Industry Minister Maud Olofsson stated that any potential buyer would have to demonstrate their commitment to keeping jobs in the country. "My primary focus is for jobs to remain in Sweden. They need to present the sort of business plan which shows that they can do so," she commented.

Although Saab is currently facing the most difficulty, the outlook for the whole industry remains bleak. Ford-owned Volvo Cars, which has also been put up for sale, failed to secure a loan of 200 million euros from the European Investment Bank, following the decision by the government to refuse to provide guarantees. Government officials pointed to uncertainty over Volvo's future ownership as the reason for their decision.

Volvo CEO Stephen Odell has subsequently held talks with Flemish Prime Minister Kris Peeters on whether Belgium would be willing to offer the guarantees. Volvo has a large factory in the town of Gent, employing over 3,000 workers. While the terms of the deal are yet to be finalised, they are likely to contain a guarantee of jobs remaining in Gent, opening the way for a bidding war between Volvo's Belgian and Swedish operations.

Truck makers Volvo Group and Scania are also in trouble. Volvo Group, which was separated from Volvo Cars when the latter was bought by Ford in 2000, has already announced 20,000 lay-offs worldwide, including 5,000 in Sweden. At the end of April it sent redundancy notices to 1,500 workers.

Representatives from the IF Metall union began negotiations with Volvo Group, concluding a deal that will impose an 8 percent pay cut and a reduction of working hours by 20 percent from June until March 2010. Despite claiming that 600 jobs will be saved by the agreement, there is no guarantee that these jobs will not be lost after March next year.

Unions have also collaborated in the implementation of short-time working at Scania, where a deal to impose a four-day work-week was announced on May 15. The agreement will see wages cut by 10 percent, with the only offer in return from the company being a guarantee of no lay-offs over the coming six months. Scania has seen sales drop by over 28 percent in the first quarter of the year, and it has already dismissed 2,000 workers employed on temporary contracts.

This is the environment within which discussions are taking place about the need to downsize the entire auto industry if it is to remain profitable. A report by the Swedish Agency for Economic and Regional Growth noted that only Germany and Slovakia had a higher percentage of their workforces employed in the auto industry than Sweden, going on to suggest that this had led to over-production.

Another study, carried out by the Swedish Agency for Growth Policy Analysis, came to the conclusion that Sweden's auto industry was not productive enough when compared against its international competitors. Commenting on both studies, analyst Maria Lindqvist observed that the future for the auto industry in Sweden should "focus on certain niche products, specific parts" rather than manufacturing the whole car.

Such an approach would mean vast cuts in auto jobs, as well as stepped up pressure on wage levels to ensure Sweden's international edge over its rivals. With approximately 190,000 employed in the auto industry, the number of those out of work will rise sharply.

This will take place at a time of one of the worst economic downturns in Swedish history. Figures released for the first quarter of 2009 showed a contraction in GDP of 6.5 percent compared with the same period in 2008. Figures for industry were even worse, as industrial production collapsed by 9 percent, and the manufacturing sector saw a 24 percent drop in output.

While unemployment temporarily slowed in April, this followed on from five consecutive months of rising joblessness, meaning that over 100,000 more were out of work in April than the same month a year earlier. The government's own figures see unemployment rising to over 11 percent in 2010. Finance Minister Anders Borg has indicated that an additional 45 billion kronor will be required to meet the costs of rising benefits.

The declining economy is exacerbating the problem of state finances. The state budget is projected to suffer a deficit of over 100 billion kronor this year.

The Alliance government continues to refuse calls for direct aid to the auto industry, despite providing massive guarantees for the ailing banking system at the end of last year. To date, the limited measures announced by the government have included tax breaks for business as well as additional funding to encourage the unemployed to take up low-paying jobs.

Borg was also forced to allocate a further 10 billion kronor to offset rising costs for unemployment benefits. In the spring budget in April, he awarded Sweden's local authorities an increase of 17 billion kronor. Nonetheless, many local authorities are calling for additional support as they face severe financial problems. The government has said that no further support will be forthcoming, insisting that local authorities will have to make the necessary decisions to cut jobs and key services such as health and education to balance their budgets.