Sweden: Further delays in Koenigsegg takeover of Saab

The Jordan Shilton
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In spite of the decision of the European Investment Bank (EIB) on October 21 to grant Saab Automobile a €400 million loan, the deal to sell the GM outfit to Koenigsegg Group remains in the balance. General Motors has vowed to end funding for the Swedish automaker by year's end.

The most widely reported delay is the requirement that the European Union Commission examine Swedish government guarantees that enabled Saab to secure the EIB loan. The Commission must determine whether it considers this a breach of EU competition law, a process that could take up to two months.

According to Swedish news agency TT, the government was sending information on the loan guarantees to Brussels by November 17. Department of Enterprise Secretary Jöran Hägglund, who has been the government's lead negotiator with Saab, confirmed the uncertainty by stating that even with the approval from the EIB, there was still "a long way to go" before anything would be finalised.

Another much less reported but more significant aspect of the deal is the on-going negotiations among General Motors, the Koenigsegg Group, and the Chinese auto firm Beijing Automotive Industry Holding Co. (BAIC).

In September BAIC concluded a deal with Koenigsegg to fill a funding shortfall of 3 billion Kronor (€297 million) for the Saab deal. While Koenigsegg has remained quiet on the scale of Chinese involvement, it has been suggested that BAIC will control a 20 percent stake in the Koenigsegg Group.

In return for its investment, BAIC is seeking to obtain Saab technology to develop its own models for the Chinese and Asian markets. Saab CEO Jan Ake Jonsson, as well as Koenigsegg head, Christian von Koenigsegg, both indicated that facilities could be opened up in China when the deal was concluded. Both emphasised the importance of China, along with Eastern Europe, for any expansion of auto sales in the coming period.

China's auto market has expanded rapidly in recent years, growing by 21 percent year on year between 2002 and 2007. Last year China became the second largest auto manufacturer after Japan, and 2009 will see China surpass the production of 10 million units for the first time. According to consultancy firm McKinsey and Co., China's auto market could increase ten-fold between 2005 and 2030.

These figures illustrate why the position of General Motors has been much less certain. Particularly after its decision earlier this month to hold on to Opel, in the face of a takeover from Magna which included Russian investment, it has become ever clearer that GM is unwilling to sanction deals which would increase competition in markets where it has substantial interests of its own. Although spokesmen were quick to dismiss any suggestions that the Opel decision would affect the sale of Saab, similar considerations are undoubtedly preoccupying the Detroit-based automaker.

Technological transfer has been raised in another deal involving a Chinese carmaker, the bid by Geely to purchase Ford-owned Volvo. At the end of October, Ford accepted a reported bid of $2 billion for its Swedish-based division, but as with Saab much remains unresolved.

The *Wall Street Journal*'s blog noted October 30:

"Geely Holding Group's $2 billion bid for Volvo has to navigate many potholes. The deepest pothole is the intellectual-property issue. Volvo has technology that its parent, Ford Motor, may not want to surrender to Geely, especially if Ford wants to make a run at expanding in China. Since acquiring Volvo in 1999, the Detroit automaker has incorporated the Swedish car maker's chassis platform into certain Ford platforms. Volvo also is a skilled maker of car parts made of high strength steel, which is lighter than other forms of steel. Ford risks losing a competitive edge by giving up these technologies to Geely."

Much the same could be said about the issues with reference to Saab. Reports on the deal struck between Koenigsegg and BAIC in September indicate that the Saab 9-5 model would be made available to BAIC when Koenigsegg takes over and launches new Saab models early next year. This would provide vast opportunities for BAIC to expand its influence in China and in the Asian car market, whilst solving many of the problems it currently faces in terms of technology.

BAIC is projected to sell over a million units this year. Although it is the fifth largest automaker in China, it is the country's fastest growing. With access to Saab platforms and other technology, it would be in a strong position to expand its brand in the region.

Should GM conclude that such an outcome is intolerable, it may choose to cancel the proposed sale. With GM claiming it has no intention of funding Saab beyond the end of 2009, it may determine that the best option is to let the automaker fail rather than allow potential competitors to access technology which could give them the edge in expanding markets.

Such a decision would result in the elimination of at least 15,000 jobs in Sweden, approximately 10 percent of the country's auto industry. It would also lead to the destruction of thousands more jobs around the world at auto dealerships and parts suppliers dependent upon Saab's continued existence.

But even should an agreement be reached on the issue of sharing technology, and provided the EU commission rules in favour of the state guarantees, Saab workers will confront the immediate prospect of layoffs and cost cutting. Koenigsegg has made it plain that savings will need to be made in order to return Saab to profitability and it has already outlined what this will mean for its workforce.

Last Thursday a joint statement from Koenigsegg and GM revealed that over a third of Saab's North American dealerships would be terminated following the takeover. Of 218 dealerships in the US, Koenigsegg has stated that it will renew contracts with only 137, meaning that thousands of jobs will be threatened.

This follows announcements by Koenigsegg that production of new models would be concentrated at facilities in Trollhättan, southwest Sweden, resulting in the ending of production in Austria next year. Prominent figures within Koenigsegg have claimed that further reductions in the workforce could be made, with reports in the Swedish press at the time of the initial agreement in June indicating that Saab could shrink to a quarter of its current size under Koenigsegg ownership.

The on-going uncertainty about the future of the automaker has had a devastating impact on sales, with sharp drops in the US, Europe and in Sweden itself. For the first 10 months of the year, Saab sales were down by around 70 percent, with only just over 500 cars sold in October. In Europe, the first nine months of 2009 saw Saab sales down by 61 percent, while in Sweden sales in October were down by over 70 percent compared to the same month in 2008.

Saab's figures are only one of the most graphic illustrations of the crisis facing the auto industry. Predictions are that sales in Europe will fall again next year, particularly as government-financed programmes to encourage individuals to purchase autos come to an end. In this environment, the only means to return ailing firms like Saab to profitability will be through attacks on its workforce, and the turn to low-cost production centres such as China.

Sweden's Prime Minister Frederick Reinfeldt accepted as much, declaring at the end of October that job losses in Sweden were inevitable. "The automotive industry is being recast. One can question if a leader of a country who raises a hand and says that 'no jobs will be affected here' has really understood the power of the restructuring forces."

Faced with this, workers need a response that unifies car workers across all national borders, against the predations of the car corporations. No faith can be placed in the national orientation of the trade unions, who, even as the inevitability of job losses becomes clear, continue to tell workers that a deal can be struck which will "guarantee" jobs in Sweden.