European car industry prepares mass redundancies

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So far, it has been mainly public sector employees, pensioners, unemployed and those dependent on welfare who have been hit by the euro crisis and the austerity measures being implemented in response by European governments. Now the looming recession is also hitting the auto industry. Above all, manufacturers who produce almost exclusively for the European market are reporting massive losses and are preparing mass layoffs, plant closures and wage cuts.

Manufacturers still reaping profits due to high sales in the US and Asia are looking nervously at the international developments. They too are taking measures to pass the burden of the crisis on to their employees through layoffs and wage cuts.

In Europe, new car sales have slumped to the level of 1994. In Spain, July sales shrank by 17 percent in the face of high levels of unemployment, in Italy falling by 21 percent and in France by 7 percent.

Even in Germany, where sales had risen slightly, the number of new registrations fell by five percent in July compared with the previous month. With around 1.9 million new registrations, the figure for January to July 2012 is just below the previous year. The head of the manufacturers association VDA, Matthias Wissmann, said that Germany was threatened with losing its role as an anchor of stability in Europe.

Even the sales figures of the so-called premium brands—Mercedes and BMW—have declined. In the German market, Mercedes recorded a decline of 14.6 percent and BMW 17.9 percent. Market leader Volkswagen showed a fall in sales of 1.5 percent.

The only exception in all markets is the VW subsidiary Porsche. The sports car manufacturer is making profits everywhere. The unemployment and poverty that is adversely hitting other manufacturers does not afflict the luxury sports car manufacturer.

Manager Magazin cites a few weeks ago, by the auto industry consultancy Alix Partners, which predicts a “double dip,” a repeat of the recession of 2008/2009. According to this report, car sales in Western Europe this year will fall by 1 million vehicles, sinking to the level of the 1980s.

Companies that focus primarily on the European Market are already reporting heavy losses. PSA Peugeot Citroën announced a loss of €819 million in the first half of the year.

The profits of Renault, the second-largest French car manufacturer after PSA, also declined. Net profits fell by more than a third. Only the shareholdings in the Japanese company Nissan, the Swedish partner of Volvo trucks, are showing profits. Deutsche Bank analysts estimate the losses of Renault in Europe at €160 million to €210 million.

The head of the second-largest US carmaker Ford, Alan Mulally, expects a loss of $1 billion or €805 million in Europe this year. In the first half of the year, sales in Europe fell to their lowest level in 20 years.

General Motors, the largest US carmaker, posted a €1.2 billion profit worldwide in the second quarter of 2012, but this was 41 percent less than a year earlier. But in Europe, the company's Opel and Vauxhall subsidiaries lost €294 million in the same period. Compared to the previous year, sales fell by 13 percent.

Fiat, meanwhile, is seeing its profits being eroded by its subsidiary Chrysler. Profits of €358 million in the second quarter were down from €1.2 billion last year. But the Fiat core business was running high losses of €500 million in the first half of the year. Turnover fell by almost 7 percent.

In the face of these losses in Europe, producers are offering ever increasing discounts, leading to Fiat CEO Sergio Marchionne accusing the VW group recently in

the *New York Times* of inflicting “a bloodbath” on pricing.

During the 2008/2009 crisis, many European governments tried to offset the slump in sales in the auto industry by introducing a “scrappage scheme”—offering subsidies on the purchase of new cars when an old car is scrapped. However, no more money is available now for such measures. Therefore, the auto companies are preparing plant closures and a massive attack on jobs and wages.

According to Alix Partners, nearly every other plant in Europe will be operating below its critical capacity next year. Since the recession of 2008/2009, three of over 100 car factories have been closed, and the sector now faces a massacre.

PSA Peugeot Citroën already announced last month it would abolish 8,000 jobs and close their factory in Aulnay-sous-Bois. By 2015, PSA hopes to save €1.5 billion. Renault managers too have announced that poor sales mean it is necessary to reduce production capacity in Western Europe.

Fiat, which has already closed a plant in Sicily and cut wages considerably at other plants, has extended the factory holiday period at their Pomigliano work near Naples and plans to utilise more short-time working. The closure of another Fiat plant is considered likely.

The GM subsidiary Opel/Vauxhall, whose leadership is being completely rebuilt, is preparing massive cuts.

There are no grounds for complacency by employees of Daimler, BMW and VW. So far, strong business in Asia and the US has secured growth for the three companies. Meanwhile, three out of four cars produced by German manufacturers go abroad. Since the beginning of the year, VW and its subsidiary brands, especially Audi, have supplied 1.3 million models, nearly one third of all cars it produced, to China (up 17.5 percent). In North America, they achieved an increase of 22.1 percent in the first six months of the year.

VW personnel director Horst Neumann, however, has cautioned against premature euphoria. VW's business was good, but the environment in Europe will be more difficult, he said. “We cannot believe we have made ??it,” he told financial daily *Handelsblatt*. The VW brand Seat, or one or other German plant, could come under pressure, writes *Manager Magazine*.

The crisis does not stop at the European borders. The signs of a deepening global crisis are multiplying. In July, Daimler had already recorded a decline of 0.8 percent in China.

For the Daimler car brands Mercedes-Benz, Smart, AMG and Maybach, Western Europe remains the main outlet. In July, sales fell by 3.2 percent. “It is increasingly clear that the Swabian car giant cannot escape being pulled into the vortex of the euro crisis on the home continent,” writes *Handelsblatt*.

European auto workers face fierce attacks. An American fund manager complained recently to the financial news agency *Bloomberg* that Ford had “done a remarkable job” in the US, but Europe is again destroying the whole success. The same was true of the other US manufacturers GM and Chrysler, he said.

This “remarkable job” was to decimate wages and benefits for US autoworkers. After the crisis of 2008, with the support of the Obama administration and the unions, the American car companies closed numerous plants, cut the wages for new hires in half, and cut pensions and health insurance contributions.

These “American conditions” are now being transported to Europe. The competition between the auto companies takes place on the backs of the workers. At the end of 2008, Fiat boss Marchionne had already predicted that just six auto companies would be left worldwide. At that time, it was assumed that Fiat’s takeover of Chrysler meant it would be one of these six. The outcome is now an open question.