Global crisis hits German auto manufacturers

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The effects of the global economic crisis are now being felt by leading top-end German auto manufacturers such as Daimler and Porsche, with their respective workforces expected to pay the price for declining profits.

Last Thursday, Daimler announced it was introducing a savings program for its auto division. The "Fit for Leadership" program is aimed at cutting "significantly more" than €1 billion from company costs while turnover and productivity are to be increased. Suppliers will be forced to lower their prices and further savings are planned in distribution and administration.

Daimler CEO Dieter Zetsche declared that concrete proposals will be announced when the company presents its third quarter financial results in late October, but it is already clear that Daimler also plans to make large savings in the sphere of production.

At the Mercedes-Benz plant in Sindelfingen, Stuttgart, the company works council and management are negotiating over production cuts for the last quarter of this year. So far they have been unable to reach an agreement. According to the *Stuttgarter Zeitung*, arbitration by a conciliation board has been invoked for the first time in four decades.

Unlike its response to the crisis in 2008, Daimler plans to cut production at an early stage. Four years ago cars were produced and sold on the basis of large price discounts and company profits slumped from €8.7 billion in 2007, to €2.7 billion in 2008, and to €1.5 billion in 2009. Following the recent warnings of a further drop in profits for Mercedes, analysts have declared that production cuts are "inevitable."

At Daimler's largest plant in Sindelfingen, 23,000 employees build C-, E- and S-Class luxury Mercedes saloons (sedans). A number of staff meetings held on Monday of this week were disrupted until an agreement was reached on work rotas, with company workers alarmed about the cuts to be introduced.

A worker from the E-Class Assembly told the *Stuttgarter Zeitung*: "We have noticed that things have been going downhill for several weeks". Last week the Friday shift was removed and an additionally agreed Saturday has also been dropped. In the autumn break, single-shift working is planned. "This means we lose money because late-shift allowances disappear", he said.

The situation is even worse for workers on the S-Class production line, where workers have run up hundreds of negative hours on their work-time accounts due to the drop in production. Company management has been planning to implement single-shift working in the department for a long time and workers fear loss of income due to reduced working hours and shift allowances.

In particular, temporary workers employed at the factory fear for their jobs. The contracts of many temporary workers have already been terminated. There are also rumours that this year's Christmas break will be extended to three-and-a-half weeks.

Daimler has justified its cuts program by citing negative tendencies on international markets. Operating profits in the auto sector for the company brands Mercedes-Benz, Smart, Maybach and AMG would this year "fail to reach the previous year's level of around €5 billion", CEO Dieter Zetsche announced. Nevertheless, Mercedes-Benz expects record sales of more than 1.38 million cars this year.

While Daimler's revenue increased by 10 percent in the second quarter of this year, its operating profit fell by 13 percent due to decreased demand in the lucrative luxury saloon market. In particular, sales of E- and S-Class cars, with a basic cost of between €40,000 and €72,000, have fallen.

Up until now, Daimler had not been hit as hard as other European manufacturers by the ongoing decline in demand for autos in Europe. It had been able to rely on strong sales in the US and China. But now demand is faltering in both countries, while the crisis in Europe deepens even further.

According to auto expert Ferdinand Dudenhöffer, the 8.5 percent increase in demand for autos in China is expected to drop to 4 percent next year, with a similar decline in demand in the US. Dudenhöffer also declares that the crisis in Europe, "far from being over, is just beginning". Expected sales of 11.6 million cars in Europe in 2013 will make it the worst year since 1993, with sales expected to fall further in 2014 and 2015.

The European car industry was plagued by overcapacity even prior to the crisis triggered by the collapse of Lehman Brothers. Dudenhöffer estimates an overcapacity of 4-5 million cars across the continent—equivalent to the production of at least four or five major auto plants. "There is basically no alternative to plant closures", he concludes.

The companies mainly affected by the crisis are those producing small and medium-sized cars for the European market—PSA Peugeot Citroën, Fiat and Opel. They have all announced plant closures and mass layoffs. Ford also expects to make a loss of €1 billion in Europe this year.

Now, however, top-end manufacturers are increasingly being drawn into the crisis. The sports car maker Porsche, which previously seemed to be immune to the crisis, also plans to cut back on production next year.

Pressure is also growing on Daimler's truck division. Zetsche maintains that the division will achieve its earnings targets, but the slump experienced by competing firms is a harbinger of what awaits the industry's leading truck producer, Mercedes-Benz. New orders for Swedish truck maker Volvo have declined by 19 percent, and MAN recorded a profit reduction of 38 percent. The Italian manufacturer Iveco is closing five plants in Europe, including three in Germany.

European market leader Volkswagen has also scaled back its sales targets for 2012, while BMW and Audi are hoping to achieve their targets for this year. Nevertheless, an escalation of the economic crisis will inevitably mean far greater attacks on the wages and jobs of auto workers throughout Europe.