French government bails out automaker PSA

Antoine Lerougetel, Alex Lantier
27 October 2012

On Thursday, the French government announced a €5-€7 billion ($US 6.5-$US 9.1 billion) bailout of carmaker PSA Peugeot-Citroën's lending arm, Banque PSA Finance (BPF), after talks with PSA management and trade union bodies.

In the first half of 2012, PSA lost over €1 billion and its shares have fallen in value from €15.21 in October of last year to €5.21 on Thursday. Its credit rating was downgraded by Moody's this month from Ba2 to Ba3, three notches below investment grade, amid expectations of an imminent downgrade of its lending arm to "junk" status.

PSA's crisis is bound up with the collapse of the European car market and of the broader European economy. Car sales in Europe have fallen from 16 to 17 million before the recession of 2009 to 13 million in 2013, and the European car industry faces production overcapacity of 35 percent.

PSA suffered in particular from the collapse in sales in southern European countries, most of which have carried out deep austerity measures imposed by the European Union (EU). In the first half of 2012, PSA's global sales fell 13 percent to 1.6 million vehicles, with sales falling in all its main national markets: Italy (-21.5 percent), France (-13.3 percent), and Spain (-10.2 percent).

Despite receiving massive funding from French taxpayers, PSA has refused to make concessions on its decision to cut 8,000 jobs, as part of a €1 billion cost-cutting plan. The plan includes provisions to close the PSA site at Aulnay in northern Paris, with its workforce of 3,300, and cut 1,400 jobs at its Rennes plant.

Minister of Industrial Renewal Arnaud Montebourg's paltry proposal for PSA to save "several hundred jobs" also fell on deaf ears.

PSA has pledged to find jobs for half of the workers at Aulnay through internal redeployments to the Poissy plant and elsewhere. However, this will involve displacing temporary workers currently employed at the other facilities.

For its part, the Socialist Party (PS) government of President François Hollande is trying to minimize the influence within PSA management it will obtain as a result of its massive outlay of taxpayer funds. PSA's CEO, Philippe Varin, said PSA management would simply appoint an extra official to the firm's non-executive oversight board. According to Varin, this official will be "independent, with a very particular relationship to the state."

In practice, however, the Hollande administration will work closely with PSA management and the union bureaucracy to plan attacks on the workers, and its bailout spending gives it significant leverage over PSA management.

The €7 billion Paris is preparing to spend on PSA is enough to acquire full strategic control of the company by purchasing all of its shares on the stock market—not once, but three times over. PSA's market capitalization as of Thursday was only €1.9 billion, due to the collapse of its stock price.

The Hollande administration is not pursuing this strategy, however. Not only does it fear and oppose the demands for increased wages, production, and jobs that could be placed on it if PSA were visibly placed under state ownership, but it does not want to take responsibility before the population for the cuts it plans to impose on PSA workers.

The ruling class is responding to the collapse of the European auto market with plans for historic attacks on industrial workers and a profound shift in class relations throughout Europe.

They are consciously modeling their plans on the 2009 US auto bailout, in which the Obama administration shut plants and slashed wages and jobs at US automakers GM and Chrysler, which were hit by the 2008 Wall Street crash. In the US, new-hire wages in the motor industry were cut by half, to $10-14 per hour.

In an editorial titled "State Interference Puts Peugeot at Risk," the *Financial Times* advised the French government: "It will be painful for the government to see jobs go in an industry seen as a national flagship. Ministers should look across the Atlantic for comfort. In 2009 the US and Canadian governments bailed out General Motors and Chrysler. Significantly, they limited their involvement to shepherding the companies through bankruptcy with business plans that required them to cut jobs, eliminate lossmaking brands and close more than a dozen plants. Washington studiously stayed out of management. Today both companies are healthy again."

This not only describes the policy Hollande has pursued so far, but it also matches the advice he received in the Sartorius report that his administration commissioned on the auto industry. The report called for significant cuts to jobs and production capacity.

Initial steps towards US-style conditions have already been made in Europe. Temp workers at PSA are paid wages that oscillate around only €1,000 per month, as compared to an average of over €1,600 for full-time workers. Their depressed wages will serve as an obvious initial benchmark for PSA's drive to cut labor costs.

Hollande and PSA will also rely on assistance from the union bureaucracy, in France and internationally. In the 2009 US bailout, the United Auto Workers (UAW) union oversaw deep cuts in workers' wages, jobs, and health and pension rights in exchange for receiving large blocks of company stock. It thus became a major shareholder in the US auto companies, with a direct financial interest in the exploitation of its membership.

European auto bosses and union officials are now working closely with their American counterparts. Part of PSA's strategy has been to partner with GM, which is currently shutting its Opel plant at Bochum in Germany and Vauxhall's Ellesmere Port plant in Britain.

GM has bought a 7 percent stake in PSA, and the two companies are developing "synergies" to jointly slash jobs and production capacity. They aim to reduce annual costs by $2 billion by pooling logistics, purchasing, and vehicle programs.

Top UAW official Bob King is working with Opel management and Germany's IG Metall union, affiliated with France's Stalinist-dominated General Confederation of Labor (CGT).