Crisis deepens in the European auto industry

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The situation continues to deteriorate for the European auto industry. Dozens of auto plants are threatened with closure in the short or medium term. Tens of thousands of jobs in Italy, France and Spain are in acute danger and this does not include the impact on related supply industries, which are often the main employer in many regions.

According to a study by the consulting firm AlixPartners more than half of all European car plants are currently working at an unprofitable level. In Italy auto factories are currently operating at only 46 percent, in France at 62 percent, and in Spain at 67 percent. To be able to operate profitably auto factories need to operate at a minimum of 70-80 percent of capacity, AlixPartners writes.

Typical for current and future development is the situation at Fiat. In 2007 the company's factories operated at 78 percent of capacity.

In June of this year, 1.13 million vehicles were registered in Europe, that is 5.6 percent fewer than in the previous year. Although June is usually a good sales month, June this year proved to be the worst month in 17 years. The study declares the source of the problem to be high youth unemployment and shrinking incomes, mainly in the southern European countries.

The austerity measures dictated by the EU, which all have the seal of approval of the German government, have plunged millions of young people and workers, especially in Greece, Italy, Spain and Portugal, into poverty. Those who have already not lost their jobs or homes often survive on a pittance; very few can afford a car. Particularly hard hit have been the so-called "lost generation" of youth.

It is no wonder that the automakers hit hardest by the slump in sales are Italian and French concerns that produce smaller and more affordable models, mostly for southern Europe. At the same time GM-Opel and Ford face a slump in sales. Many experts see no improvement in the foreseeable future. In general, the auto crisis in Europe is described as the new normal.

Chrysler was fundamentally reorganised after Fiat took over the troubled US automaker with billions in aid from the US government. Thousands of jobs have been lost, wages lowered and working hours increased. This was all carried out with the help of the United Auto Workers union. Fiat CEO Sergio Marchionne, who now also heads Chrysler and is president of the European automobile association, Acea, has announced plans to close several plants in Italy. Part of the company's production for the Chinese market is to be transferred directly to China.

Marchionne has referred to "bloodbaths" in the European car industry and has threatened to transfer the Fiat headquarters in Turin to Detroit. Fiat and the company's commercial vehicle division Fiat Industrial employ about 80,000 people in Italy. Media reports stated that the merger with Chrysler served to restructure the new company.

German carmakers BMW, Mercedes, Volkswagon, Audi and Porsche are seeking to compensate for the drop in sales in Europe with an offensive strategy to sell up-end market vehicles on the Chinese, Russian and American markets. Marchionne seems to have similar plans and is also seeking a larger share of the pie in China based on sales of top-end brands such as Alfa Romeo, Maserati, Ferrari and Jeep.

The 2014 closure of the GM-Opel plant in Bochum, Germany, with over 3,000 employees, is imminent and Ford also plans to close three of its plants in the UK and Belgium, wiping out 6,200 jobs. "The lights will go out in Southampton and Dagenham at the end of this week and in Genk at the end of 2014. This is to reduce excess capacity and production," Manager Magazin online wrote last week.

The German auto industry is using the crisis to increase its dominance over its rivals in Europe.

According to a study by the accounting and consulting firm Ernst & Young, the German market share of European car manufacturing rose from 31 percent in 2009 to 37 percent in the first half of 2013. Over the same period the market share of the French, Italian and US corporations declined from 50 percent to 42 percent. According to the report, a “bloody battle for market share” is taking place in Europe in which German companies hope to emerge stronger from the crisis, while others fight for “survival”.

In line with this “market adjustment”, *Business Week* gave the German government the following advice in early July: “Given the financial situation of the EU countries, the risk is low that 2013 will witness any absurd subsidy fireworks. At best politicians should sit back, let market forces prevail, watch as one or the other car brand in Europe disappears, five or ten auto plants are closed down and the industry can once again make profits based on the current sales level.”