European automakers outsource production to eastern Europe and China

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The European auto industry is systematically utilising low wages in eastern Europe to slash wages across the entire continent. They are increasing the tempo of outsourcing to eastern Europe and China, eliminating jobs in western Europe, and using this to drive down wages and impose poor working conditions.

Currently, approximately one fifth of Europe's vehicles are produced in eastern Europe. According to the consultancy firm Roland Berger, 15 auto concerns operate 12 plants there with a total annual capacity of 3 million vehicles. This tendency is rising sharply. The number of vehicles produced in Romania rose by 21 percent to 400,000, the fastest increase of any country globally.

The auto companies are building entire factories in Poland, Slovakia, Hungary, and increasingly China. Volkswagen (VW) mainly produces in Poland for exports, and in Russia for the domestic market. Since 2011, VW has carried out the labour-intensive process of assembling all cars below the Golf class outside of Germany.

In line with this, VW subsidiary Skoda is expanding its plant in Kvasiny, Czech Republic, for a new model, likely to be a larger SUV. Skoda will also build a model for VW's Spanish brand Ceat, according to VW CEO Martin Winterkorn. Ceat's Spanish plant lost the internal competition within the company for the relevant contract.

The successor model to the VW Transporters Crafter will be manufactured in Poland. When it was announced that the cooperation between Mercedes and VW to manufacture both the Transporter Sprinter and Crafter would end in 2016, the IG Metall trade union had hoped that thereafter the Transporter model could be manufactured at VW's Hannover plant. However, management awarded the contract to Poland. A new plant is to be built for this in Wrzesnia, near Poznan, providing 2,300 jobs.

Audi, which is owned by VW, has also significantly expanded production in eastern Europe. With more than 10,000 employees and almost 2 million vehicles manufactured last year, Audi Hungaria includes the world's largest engine factory. Audi's Hungarian division produces the full range of VW vehicles. In addition, the Györ plant in Hungary manufactures the Audi A3 and Cabrio from start to finish, without any collaboration with factories in Germany. In Györ, 125,000 vehicles will soon be rolling off the production line annually.

General Motors' subsidiary Opel produced 600,000 cars in its Hungarian plant at Szentgotthárd last year, and is planning an investment of around €500 million to increase capacity to 750,000 units. While its Bochum plant will close this year with the loss of 3,300 jobs, the Gliwice plant in Poland is to be expanded to take over the production of the Astra model from Rüsselsheim in Germany.

Daimler is encouraging its plants in Germany, Romania and Hungary to work in "cooperative production." In the process, production is being outsourced from German factories step by step to countries with much lower wages.

Since the beginning of 2012, the Mercedes Model B series and the mid-range Coupé CLA have been manufactured entirely in the Hungarian plant at Kescemét by 3,000 workers. The plant completes with the facility in Rastatt, Germany. Daimler head of human resources Wilfried Poth stated, "From a financial point of view, a combined calculation of the main plant at Rastatt in Germany and the plant in Hungary plays an important role."

The company also decided a year ago to expand its gearbox production facilities in Romania. The Untertürkheim plant near Stuttgart lost out in internal competition to the Romanian plant to produce twin-clutch gearboxes.

Since 2011, Ford Europe has not only manufactured cars in Cologne, but also at the Romanian plant of Craiova. Both locations are currently competing over the Fiesta model, which has been produced in Cologne since 1979. If the Cologne workers do not accede to pressure from management and IG Metall to accept deteriorating working conditions, production of the Fiesta will be awarded to the Romanian plant from 2017. Ford has already shut down three plants in Belgium and Britain.

Asian and French firms Hyundai-Kia, Toyota, and Suzuki, as well as Peugeot-Citroen, are also represented in eastern Europe.

Auto manufacturers are being drawn to eastern Europe by the limited rights and low wages of eastern European workers. Audi CEO Rupert Stadler gushed, "An hour of labour in Hungary costs €13, in Germany, depending on the activity, between €40 and €52." In Bulgaria and Romania, they are estimated at less than €5, and in Ukraine they are just as low.

It is a similar pattern with China. In addition to low wages, there is also a major sales market. The Centre for Automotive Research (CAR) at Essen University wrote at the beginning of the year, “The auto year 2014 will be the beginning of a new era.” For the first time in history, more vehicles will be sold in China at 15.87 million than in the United States with 15.7 million.

If utility vehicles are included, China has been the largest producer and sales market for five years. In 2013, for example, VW brands accounted for almost one in three vehicles bought in China, 3.3 million cars. Among the main brands, VW accounted for almost every second vehicle. The German company now obtains almost half of its total profit from production and sales in China. VW reported total profits of €9.1 billion (after taxes and interest), Daimler €8.7 billion and BMW €5.3 billion.

The auto producers have been working for years to increase their production capacity in China. VW opened five new plants last year, and another two are to follow this year. The company intends to invest €18.2 billion in China over the next five years. This investment is the largest in the history of the Chinese auto industry.

All other auto manufacturers are moving to China. Peugeot-Citroen, which has been a loss-making company for years and subsequently received a capital injection from the French state and Chinese auto producer Dongfeng, intends to treble production and sales in Asia in the coming years.

Around 60 percent of the vehicles produced in China belong to international automakers. The production of Chinese companies has declined slightly, and their percentage of total production has shrunk.

When Chinese president Xi Jinping travelled to Germany two weeks ago, VW and Daimler announced additional multibillion investments in China. In the presence of German chancellor Angela Merkel and President Xi in Berlin, Daimler signed an agreement with its Chinese partner Beijing Automotive (BAIC) to expand production of vehicles and engines in a joint company, Beijing Benz (BBAC), in Beijing. Both sides are investing €1 billion in total. Daimler chief Dieter Zetsche stated that with the growth of the Chinese auto market, “we want to be part of it through the expansion of production in close proximity to the market.”

Daimler joined up with BAIC in November 2013 with an investment of €625 million. The producer of the Mercedes is the first foreign automaker to own a significant percentage, 12 percent, of a state-owned Chinese auto company. In their joint venture in Beijing, the E and C classes will be built, as well as a land rover GLK. Additional models are to follow. Next year, capacity is to be more than doubled to 200,000 vehicles.

Daimler is also the first foreign company to issue company bonds in China. As the company reported in Beijing in mid-March, the bonds were in the sum of roughly €60 million and would run for one year. Daimler finance director Bodo Ueber said that the bonds “met with significant interest from Chinese investors.”

According to estimates from the credit rating agency Standard & Poor’s, the bond market in China could grow to €13.8 trillion this year, thereby surpassing the US market.

Under pressure, auto suppliers are implementing the same production outsourcing. A projection by accountants PricewaterhouseCoopers suggests that in the future, 80 percent of demand from German producers for additional components will come from abroad.

Bosch has built a new plant for security systems in the western Chinese city of Chengdu, and plans to invest a further €100 million there. By 2018, Bosch intends to shift the production of starters and alternators from Hildesheim in Germany to a Hungarian plant at Miskolic. While the international auto parts supplier Johnson Controls is mainly closing plants or reducing production in Germany, a new plant located next door to Daimler’s facility in Kecskemét, Hungary, has been in place for two years. Johnson Controls is planning 11 new plants in China, bringing its total to 68 in China, all in the direct vicinity of the international automakers’ plants.

With the exploitation of cheap labour in eastern Europe and China, the auto concerns are striving for profit rates of 10 percent. The financial director of Austrian parts supplier Magna, Vince Galifi, stated, “We expect rising operating returns the further east we move.”

According to the European Auto Producers’ Association (ACEA), 3 million people in Europe are directly employed by automakers, and almost 13 million in the sector as a whole, including the supply industry. Their incomes and jobs are increasingly under threat if they continue to be played off against their counterparts in eastern Europe and China.