

Renault announces “no taboos” cuts as planned layoffs in auto industry exceed 100,000

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French auto company Renault announced plans for \$2.2 billion in cuts last Friday after a dismal economic performance in 2019. The company lost 141 million euros last year after making 3.3 billion in profit in 2018, and overall sales fell 3.3 percent. Dividend payouts from its corporate partner Nissan fell from \$1.6 billion to \$262 million as a result of the deep crisis at the Japanese automaker.

Acting Renault CEO Clotilde Delbos pledged that nothing would be “taboo” as the company reviewed areas to slash costs. This includes the possibility of job cuts, as well as a review of “performance across all factories,” according to Reuters.

The phrasing of Delbos’ statement recalls the incendiary speech last month by Volkswagen CEO Herbert Diess, who pledged to slaughter “sacred cows” as the company pursued a “radical restructuring,” including 20,000 job cuts in Germany alone. Volkswagen’s former brand manager Luca de Meo is set to take over the reins at Renault later this summer.

Renault’s announcement is only the latest in a series of announced layoffs, which constitute a global jobs massacre in the auto industry. More than 500,000 auto-related jobs were shed last year, including tens of thousands in Europe and North America.

Analysts expect job losses to increase over the course of 2020. More than 80,000 job cuts were already planned by auto companies worldwide in December, according to Bloomberg News. This figure does not include the announced cuts at VW, meaning the current number is at least 100,000.

The estimate also does not include parts suppliers, which employ a far higher percentage of the global auto workforce. Volkmar Denner, CEO of German supplier

Bosch, speculated in the press last month that the world economy may already have passed “peak car” production. Indian parts suppliers warn that if global auto sales continue to decline as expected, as many as 1 million out of the country’s 5 million auto part jobs may be at risk.

Other announced job cuts throughout the industry include: 9,500 cuts at VW subsidiary Audi, 10,000 at Daimler, 12,000 cuts by Ford throughout Europe and 12,500 at Renault’s corporate alliance partner Nissan. Nissan is reportedly considering an additional 4,300 white collar job cuts and the closure of two plants. Additional layoffs are also a real possibility at Ford, which announced a reshuffling in its top leadership after experiencing a 99 percent decline in profits last year. Ford is already under intense pressure by Wall Street to speed up job cuts under its “global fitness” program.

While these layoffs are occurring worldwide, Europe is particularly vulnerable. Europe is a lower-margin region for automakers due to higher proportional sales of sedans and other small vehicles, rather than the high-profit pickup trucks and SUVs which are more popular in North America. In addition, European autoworkers still retain certain job and income protections although the European unions are rushing to catch up to their American counterparts in abolishing such gains to boost the “competitiveness” of car companies in Germany, France and Italy.

Many auto companies complain of excess capacity in their European plants, making workers on the continent more at risk for new plant closures. Facilitating plant closures was no doubt a major goal of last year’s abortive merger between Fiat Chrysler and Renault,

whose plants are the most underutilized in Europe. Fiat Chrysler is now moving ahead with merger plans with Renault's French rival Peugeot.

The most immediate cause of the cuts is the onset of what is expected to be a prolonged industry slump. Global auto sales, which peaked in 2017 at 95.2 million cars, fell year-on-year by 4 percent in 2019. Renault's internal outlook for the year is that sales in Europe and Russia will decline a further 3 percent in 2020.

A major driver of the downturn is slumping sales in emerging economies, especially China, where the auto market has exploded from virtually non-existent to the world's largest in the space of three decades. Chinese vehicle sales fell for the first time in a generation in 2018. Major urban markets in China are reaching saturation, according to industry analysts.

However, vehicle ownership rates in China remain low, with only 181 vehicles per 1,000 people, less than Ukraine, Thailand and North Macedonia. For the vast majority of the Chinese working class, who toil for long hours for low pay, car ownership remains a financial impossibility.

A major aggravating factor is the impact of trade war measures by the Trump administration and other governments, to which the auto industry, which relies on highly integrated global supply chains, is especially vulnerable. Supply chains have already been severely disrupted by the near-total shutdown of the Chinese auto industry in response to the coronavirus, whose outbreak is centered in China's "motor city" Wuhan. Renault jointly operates a plant in Wuhan with Chinese automaker Dongfeng, whose idling impacted production at Renault's plants in Korea.

Global job cuts are also being driven by the industry's transition to electric and self-driving vehicles, anticipated to be the most disruptive technologies in the industry since Henry Ford's assembly line. However, the research and development costs are enormous, and the technologies may not reach maturity for a generation. Electric vehicles will not achieve cost parity with gas-burning vehicles until 2027 and are not expected to overtake traditional vehicles in overall sales until 2040. The timeline for self-driving vehicles is even further out.

The costs associated with these technologies is driving automakers to cut expenditures through layoffs. However, the layoffs are also part of a restructuring of

the industry's labor force for the new technologies, which will require a vastly reduced workforce.

For Renault, another major factor is the chaos surrounding its corporate alliance with Japanese automakers Nissan and Mitsubishi after the arrest and prosecution of former chairman Carlos Ghosn.

"Le Cost Killer," as Ghosn was affectionately known in financial circles, exercised an unprecedented personal control over the alliance, which he engineered in the 1990s. He was arrested by Japanese police in 2018 on allegations of financial misconduct and fraud, including misusing tens of millions of company dollars for private jets, yachts, overseas residences and investment in his son's company. Since his ouster, Nissan's financial performance has plummeted. The company's stock is at its lowest in 10 years, and Nissan last week cut its profit forecast for the year by 43 percent.

While the charges against Ghosn are certainly credible, they emerged out of a bitter conflict within Nissan's top executives, who secretly began an internal investigation against him. Nissan executives blame the company's disastrous performance on Ghosn's policy of aggressive expansion. Another major point of friction between Renault and Nissan is the imbalanced cross-ownership between the two companies. Renault owns 43 percent of Nissan, but Nissan owns only 15 percent of Renault and has no voting rights. Nissan has pushed for years to get Renault to reduce its stake.

Ghosn, who escaped from house arrest last year and fled Japan for Lebanon, where he holds citizenship, has used extremely favorable treatment in the Western media to present himself as the victim of a conspiracy and denounce Nissan's current top leadership and the Japanese legal system.



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