

# Fitch upgrades Volvo's credit rating, citing "cost discipline" and "resilient profitability"

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22 June 2021

On Monday, the ratings agency Fitch announced that it was upgrading Volvo Group's credit rating from BBB+ to A-, with a stable outlook.

In explaining the change, Fitch glowingly described the company's position, writing, "The upgrade reflects Volvo's resilient performance through the pandemic with strong cash flow generation, despite pressures on revenue and profitability as a result of production halts and economic weakness in 1H20 [the first half of 2020]. We expect sustained cash flow generation to help maintain a net cash position in its industrial operations and healthy liquidity in the long term, in line with a strong investment-grade rating."

The rating change, the statement continued, was also driven by "Volvo's strong market position and our expectations of solid demand for the company's products and services supported by ongoing trends such as digitalisation and electrification."

The significant rating upgrade comes during the third week of the second strike this year by 2,900 Volvo Trucks workers at the New River Valley plant in southwestern Virginia. Workers have twice rejected by overwhelming 90–91 percent votes concessionary contracts reached between Volvo and the United Auto Workers union (UAW). Opposition to the agreements has been led by the Volvo Workers Rank-and-File Committee (VWRFC).

The UAW, speaking on behalf of Volvo, had attempted to blackmail workers into accepting the second deal at "townhall" meetings in the lead-up to the ratification vote, telling workers it was the best they could expect. This "best" contract would have raised health care costs, maintained the divisive multi-tier wage and benefit system, kept raises for top pay below inflation, introduced an "Alternative Work Schedule" abolishing the eight-hour day, and attacked retiree

health care.

Last week, New River Valley Plant Vice President and General Manager Frank Marchand reiterated Volvo's determination to impose a contract that secures its "competitiveness" and includes "unavoidable health care cost-sharing increases." Marchand's statements were part of a theatrical exchange of letters between him and UAW officials. The UAW has refused to reveal to workers what exactly it is planning to demand from the company in talks over a third contract—nominally set to restart on Wednesday—that differs from the terms workers have already twice rejected.

The implicit argument behind the assertions of both Volvo and the UAW is that there is simply not enough money to satisfy workers' demands. However, the ratings upgrade provides further confirmation that this is nothing but a self-serving lie.

As Fitch points out, Volvo has prospered during COVID-19, remaining "well-capitalised" and with a "resilient profitability through the pandemic." Volvo reported in the first quarter of 2021 alone an operating income of roughly \$1.4 billion, up from around \$860 million at the same time last year.

Pointing to some of the driving elements behind Volvo's profit-making in typical corporate euphemisms, the rating agency writes, "Prompt cost discipline and lower investment activities resulted in an EBIT [earnings before interest and taxes, a measure of profitability] margin of 7.6% for 2020, which was almost double Fitch's forecast in July 2020. We expect the EBIT margin to recover to around 10% in 2021 and remain around 10%–11% in the long term."

One of the measures referred to as "prompt cost discipline" was Volvo's move in June 2020 to lay off more than 4,000 of its white-collar workers globally.

Fitch is one of the three major credit rating agencies, along with Moody's and S&P. The agencies function as some of the chief disciplinarians on behalf of Wall Street and the financial aristocracy, relentlessly egging on corporations, local and state governments, and even entire countries to cut costs and reduce the proportion of wealth going to workers. The agencies impose these demands using the ever-present threat of a rating downgrade, which can drive up the cost of borrowing to unsustainable levels.

Speaking for this financial aristocracy, Fitch described Volvo's plans to issue close to \$5.9 billion in dividends to the company's shareholders as a "balanced" expenditure of funds. As the WSWS has previously reported, a significant proportion of Volvo's stock is held by giant investment firms, which will reap the lion's share of the dividend payout.

At the same time, Fitch points to "challenges" and factors which could lead to a downgrade in Volvo's rating, including "supply-chain disruptions," lower cash flow margins, and "sustained net debt position in industrial operations."

While Fitch explicitly cites the ongoing semiconductor shortage as a source of supply-chain disruptions, it is well understood by Volvo that the rating agency is standing whip-in-hand, ready to punish the company with a downgrade should it—and the UAW—fail to contain strikes to the New River Valley plant and beat back workers' demands for higher wages and benefits.

In other words, any substantial reversal in the proportion of the wealth produced by workers away from corporate shareholders and instead into workers' pockets is viewed as unacceptable by the representatives of finance capital, who live in constant fear of the emergence of a broad movement of the working class to reverse its declining standard of living.

Striking workers at Volvo are thus facing not simply the ruthlessness of an individual corporate firm and the treachery of the UAW. They are up against the capitalist ruling class, which exercises a dictatorship over economic, political and social life.

However, Volvo workers have powerful allies among the working class internationally, as evidenced in an initial form by the stream of statements of support by workers in countries around the world for the strike, despite the UAW and media blackout on the walkout.

For the strike to be won, it is critical that its isolation be broken. Workers throughout Volvo's operations, including at Mack Trucks, and beyond must be mobilized and link up with the Volvo Workers Rank-and-File Committee in independent organizations of their own, to prepare a broad counteroffensive for workers' interests and against the endless corporate demands for sacrifice.



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