

Automotive Suppliers hit the alarm button European federation predicts the end of automotive industry in Belgium

The Belgian automotive industry is doomed to disappear, predicts CLEPA, the European Association of Automotive Suppliers. Already now, some 500 companies are at the brink of bankruptcy, with more facing the downward spiral.

The car industry is being hit hard. The worst-case scenarios state that the production of cars will decrease in 2009 by 40%. The hardest punches are for suppliers, of which there are approximately 5000 in Europe; 10% of which are risking to go under.

This is a prediction by Lars Holmqvist, the Swedish CEO of CLEPA and CLEPA director Karel Bos.

“There will be a wave of bankruptcies and consolidations in the sector. We estimate that this crisis could cost up to 1-1.5 million jobs” says Bos, who recently quit as CEO of the Belgian exhaust-producer Bosal.

In total, the supplier industry counts for about 5 million direct jobs. The wave of bankruptcy proceedings could hit Western-Europe from the end of next month onwards and will, according to expectations, peak in March and April. The reasons why this might happen so quickly is that most suppliers have already spent all their financial reserves and that banks are not willing to help while the crisis is worsening. The consolidation will not come from inside the industry, as most players have no cash. Even strong industry leaders like the German company Bosch were hit hard and had to cut into its reserves.

“If you are cutting into your reserves, you are not looking to consolidation” says Bos. “Outside the sector however, there are many venture capitalists looking for good activa”. Last week, Holmqvist and Bos met with the European Commission; not that CLEPA has a high hopes that the EU will quickly intervene with a financial injection. But they do see an important controlling role for European Commission Vice-President for Enterprise and Industry, Günter Verheugen. “His role should be one of coordination”. If not, total chaos could arise, notably a bidding round of measures from Member States to protect their national automotive sector, says Holmqvist. During his talks with the Commission he saw that Belgium is not (yet) considered an automotive producing country.

Protectionist Reflex

Soon perhaps it may no longer be necessary to convince the Commission of the importance of the car industry in Belgium. Bos and Holmqvist think there is a realistic danger that the car assembly and supplier business will significantly shrink in Belgium.

“Currently there is a major risk for OEMs. It is just a matter of time before they disappear, directly to be followed by automotive suppliers.” The reduction of car activities in our country will be the consequence of the inevitable protectionist reflex that lurks around the corner in countries as Germany, France and Sweden.

“Imagine that the German government guarantees loans for Ford or Opel, do you really think that the same government will accept Ford or GM to keep producing in Antwerp?”

I don't think so. We simply don't need as many factories as are currently open. As governments aim to keep the employment in the automotive sector in their own country as stable as possible, GM for example will be under pressure by the government to move those jobs back to Germany. The Swedish government will be tempted to do the same with Volvo. And Belgium will fall by the wayside."

"Let's face it: Belgium already has a problem with its competitiveness. If you calculate the labour costs for 100 people working in Belgium, it sums up to 6.5 million Euro. In Hungary those same 100 employees cost 1 million Euro and you get the same productivity, the same quality the same output and logistic costs."

The current crisis of the suppliers doesn't come all of a sudden. The sector has been under constant pressure since the 1990s. These continuous problems quicken the degradation. "If the sector had built up profits during the past ten years, the current problems would not be that big", says Bos, who points out that most price increases from commodities were not passed on to the customers of the car manufacturers.

"The suppliers had to cope with this, which had a negative impact on the margins and profitability." On a scale of 100, the cost price of car parts eroded to 85 since 1995, adds Holmqvist.

Suppliers can hardly defend themselves. "Once you're in a business like this, you can't switch anymore." A supplier, who produces parts for Ford, can only sell it to Ford. Anyone braking contracts unilaterally because they are not profitable enough will be sued by the manufacturers.

Battlefield

Bos states that the car sector has become the battlefield for geopolitical regions such as Europe, the US, Japan, Korea, China, India and soon Russia. Western-Europe is more and more losing these battles. "I can assure you that today no single Managing Director will start a factory in Western-Europe." Eastern-Europe and Nord-Africa have a much bigger chance. In this, Bos speaks from his experience working at Bosal.

"To close a factory used to cost us 70.000 Euro per person, finally amounting to 140.000 Euro per person. Crazy. Those people will never yield that much to the company to justify such an amount. The social obligations and the inflexibility of employees are simply too big, the labour costs too high. That's the reason we have to come back to reasonable labour costs and higher flexibility in the workplace. Basically, for anything which is labour intensive, Western-Europe is out."

That it came that far is partially due to the EU's Eastern enlargement. "Through the accession of new member states, where labour costs are much lower, the high living standard in the old member states is over." However, we will be able to keep a lot of jobs in our regions. "For example, does anybody want to buy an Aston Martin, Maserati or Ferrari *made in China*?" People want to pay more for cars like that. Such niches will always exist.

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Interview Lars Holmqvist and Karel Bos

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