

TROUBLES WORSEN FOR PARTSMAKERS

BETTINA MAYER

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MUNICH -- Jean-Christophe Quemard is worried. The PSA/Peugeot-Citroen purchasing director keeps a list of struggling partsmakers.

There are 45 companies on that list.

That is twice as many as last year.

Quemard has good reason to be concerned. Suppliers are facing arguably the worst crisis in their history.

Lars Holmqvist, CEO of the European suppliers organization, CLEPA, estimates that 500 partsmakers will go out of business in the next three months. That is about 10 times more than in an average year.

"And that is a very conservative figure," Holmqvist added.

The health of the supply chain is crucial because 75 percent of the parts in an average European car come from components makers.

Suppliers are hurting because automakers are reducing orders by up to 50 percent and banks are raising rates on loans, or cutting back on lending completely.

Tough times

What suppliers have done to cope with big cuts in auto production

Bosch

- Extend holiday plant shutdown
- Reduce length of workday at plants in Rommelsbach and Bamberg

Continental

- Halt investments that are not urgent
- Extend holiday shutdown by 1-4 weeks
- Reduce length of workday and workweek

Delphi Europe

- Extend holiday plant shutdowns
- Temporarily layoff full-time workers

Faurecia

- Shut most of its 37 plants in France for most of December

Haldex

- Cut 700 jobs

IAC Europe

- Close door panel plant in Poland

Schaeffler Group

- Cut temporary workers
- Halt production on certain days

Valeo

- Shut most of its sites in France for 2-3 three weeks in December

Source: Companies

Massive job losses

Holmqvist said that about 10 percent of the European auto sector's 12 million jobs will be lost this year.

Germany will be hit hardest.

Willi Diez, director of the Institute for Automotive Research at Germany's Nürtingen University, said the country could lose as many as 50,000 jobs by the middle of 2009. He estimates that 20,000 of those jobs will come from suppliers.

The French auto suppliers group FIEV expects employment in the country's sector to drop below 110,000 workers in 2008 from 114,500 at the end of 2007.

Supplier jobs in central Europe also will be cut. Up to 10,000 posts are at risk in the Czech Republic while Poland will lose at least 2,200 jobs.

A number of automakers are trying to help their suppliers by doing things such as temporarily paying more for parts.

Despite those steps, many industry watchers say things will get worse.

"I am absolutely sure that we will see some plant closures in the first quarter," said Marcus Berret, a Stuttgart-based analyst with Roland Berger Strategy Consultants.

Nick Gill, automotive leader at Capgemini's UK office agrees: "There will be failures of both plants and companies."

Big suppliers fighting to survive include Germany's Getrag. The transmission maker is undergoing a restructuring that it hopes will secure its future.

Stankiewicz, a German specialist in acoustic insulation, was rescued from bankruptcy last week with help from banks, customers and its suppliers. Roughly 2,200 jobs were at risk.

Partsmakers are taking steps to protect themselves from the dramatic production cuts. Many have or will soon halt production for the rest of 2008.

Banks under fire

Jürgen Geißinger, vice president of the German auto industry association (VDA) and CEO of the Schaeffler Group, blames the problems that partsmakers are having on the reluctance of banks to give loans.

"If banks continue to shirk their responsibilities, very soon there will be massive insolvencies among suppliers which, in turn, will have massive effects on the banking business," he told *Automotive News Europe* sister publication *Automobilwoche*.

When asked to make a prediction on when the industry will begin to recover, CLEPA's Holmqvist said it may be as long as two years. He said it would be five or six years before production levels match those seen in 2007. Roland Berger's Berret hopes that things will improve faster than that, but he is also realistic.

"We need to see a recovery by the end of 2009, but no one would bet on that," he said. "Things we thought were unlikely a few months ago now are happening 10 times a day."

Douglas A. Bolduc, Lyle Frink, John Reville, Lawrence J. Speer contributed