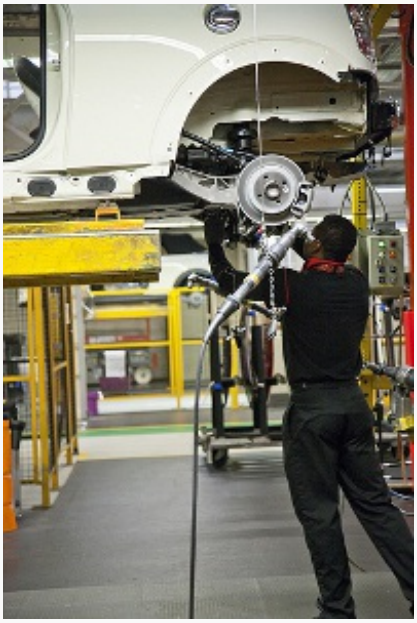
European car manufacturers' latest crisis is only one part of the industry's two-decades of restructuring and decline.

by Blog Admin

This week has seen car plant closures in Belgium and the UK, consolidation programmes, including a bail-out for Peugeot and GM/Opel, and a squeeze on the profits of all car manufacturers, including the relatively healthy VW. **Bob Hancké** *takes stock of restructuring in the industry over the last two decades, and finds few reasons to be cheerful.*

This is not the first time that the European car industry is facing a serious crisis which will end up in a restructuring wave. In the early 1990s, somewhat drugged by the economic boom following German unification, car manufacturers increased capacity significantly, by introducing extra shifts and constructing new plants. By 1993 it was estimated that surplus capacity in the industry would grow to 25 per cent by the early 2000s. Faced with that prospect, the large car companies closed several plants in the mid-1990s: Renault-Vilvoorde, near Brussels, made the headlines all over Europe, but the company's factory in Portugal faced the same fate, and in quite a few plants production capacity was at an almost symbolic level, keeping only a few hundred instead of a few thousand staff. Opel sharply reduced capacity in its Belgian and UK plants. A few years later the Volkswagen plant in Brussels closed down, GM-Antwerp closed shop and now Ford-Genk.



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There are two interesting things going on here. One is the unmistakable demise of Belgium's car industry. Only a generation ago, Belgium produced more cars per head than any other country in the world, in five large plants (Ford, VW, Opel, Volvo and Renault all had operations in the country's) with a combined output of about 1.5 million cars. By the end of 2014, only Volvo will have a working assembly plant left. The workforce in the Belgian car industry fell, in these two and a half decades until 2014, from about 40,000 in the car factories (and about the same in the local supply industry) to less than 15,000, including suppliers. Belgium, dubbed the Detroit of Europe in the early 1990s, will soon produce almost no cars anymore. In its place, new factories and restructured brownfield sites emerged in Central Europe: the events in Berlin, Prague and Budapest in 1989 sealed the industry's fate in Belgium. The combination of relatively low wages, relatively high skills and rapidly increasing productivity was unbeatable.

The other is the proverbial dog that did not bark. Wages, skills and productivity in car plants in Germany are at almost exactly the same levels as in Belgium. In fact, the attempts at wage co-ordination by the European Metalworkers Federation assured that wages, adjusted for the level of productivity (but that has converged over the last two decades as a result of corporate restructuring), moved in tandem. Germany, however, has yet to witness its first plant closure. The reason is that, in the end, in the automotive industry, economics is only one of several things that matter in deciding where to produce what. German labour unions have a considerably more secure political position in the country's car industry than unions elsewhere, and they are not afraid to use that to make sure that sharp reductions in capacity are concentrated outside the country and that the German workforce is shielded from competition emanating from plants east and west. That was what happened in the 1990s, when IG Metall was involved in negotiating collective agreements in which they conceded wage differentials and working time systems that would have been deemed non-negotiable only a few years earlier. Today, with the German automobile

industry buoyant again, but with the need for restructuring nonetheless obvious to all, cuts will again be made outside Germany. Since the newer, highly productive plants in Central Europe are untouchable, the axe must fall elsewhere.

This is undoubtedly not the last bit of bad news that we will hear from the European car industry, neither this year nor in the more distant future. The sector suffers not from bad performance so much as from excessive fragmentation. There are still six mass producers and three more or less independent luxury car producers on the continent. The US has two left, Japan three, and the rest of the world another two combined. More weeding out is therefore almost impossible to avoid. The management dogma in the industry is that, more than ever, size matters — hence the move by traditional German luxury producers such as Mercedes and BMW into all car market segments, large and small. And hence also the takeovers and joint ventures that companies such as VW, Renault, Peugeot and GM have pursued. If you're working in the car industry, fasten your seat belts. It's going to be a rough ride.

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