Peugeot In Alliance Talks With GM

Greg Keller, AP Business Writer

PARIS (AP) — PSA Peugeot Citroen is in talks over a possible alliance with Detroit-based General Motors, a deal that could dwarf France's leading car maker's existing partnerships with BMW, Mitsubishi Motors and Toyota.

Peugeot Citroen shares surged on news of the talks, which were confirmed Wednesday by France's labor minister.

The Paris-based maker of the Peugeot 207 hatchback and Citroen C4 Picasso minivan lost euro439 million ($578 million) on its car business last year amid falling sales and concerns over management's strategy among industry analysts. The family controlled company whose roots stretch back over 200 years has been hard hit by the economic downturn in Europe, where it sells more than 50 percent of the 3.5 million car it sells annually.

Peugeot released scant details about the talks. Its statement said only that it was examining "projects for cooperation and alliances" related to its strategy of "globalization and performance improvement."

Labor minister Xavier Bertrand said Peugeot Chief Executive Philippe Varin had informed him Tuesday evening of the talks about a "strategic partnership" with GM.

"He told me that it's good news for the group because it will allow to cut costs on each vehicle," Bertrand said in an interview of French radio Europe 1. Bertrand said the proposed deal would give Peugeot Citroen the size it lacks to compete on a global scale. Peugeot "is above all a European champion, a national champion. If you have access to a global dimension, it's not a handicap," Bertrand said.

Peugeot shares rose more than 20 percent to a four-month high on the Paris stock exchange as investors applauded the possible tie-up.

At 1330 GMT the stock was up 14 percent at euro16.44 a share.

News of the talks comes just ahead of next month's Geneva Motor Show, and will undoubtedly be one of the main topics of discussion at Europe's biggest annual car industry gathering.

For GM, the talks raise the possibility that it might find a solution for its loss-making Opel and Vauxhall brands in Europe. GM Europe lost $700 million last year. Last week the head of General Motors Europe announced that the company was in talks with unions and employee representatives on ways to cut costs and return Opel and Vauxhall to profitability.

An Opel spokesman declined to comment Wednesday.

Peugeot is second by sales only to Wolfsburg, Germany's Volkswagen AG among Europe's carmakers. It already has a partnership with BMW AG to jointly develop a lower-emission engine for some of their most popular models.

Peugeot Citroen has also worked with Mitsubishi Motors on developing product development with cooperation on SUVs, clean technologies with electric vehicles and a joint venture in Russia.

Two years ago Peugeot and Mitsubishi abandoned talks on a "strategic partnership," saying that circumstances were not right.

Last week Peugeot Citroen forecast a 10 percent drop in car sales in its core French market this year, after booking a loss in 2011, as economic conditions remain tough.

Peugeot Citroen forecast the European car market will shrink about 5 percent this year, after a 0.5 percent drop in 2011.

Last year Peugeot Citroen sold 3.5 million cars, 1.5 percent fewer than in 2010. In the hard-hit European market, Peugeot Citroen car sales slumped 6.1 percent, worse than French rival Renault.

The company is stepping up a cost-cutting plan announced last October, and now aims to achieve euro1 billion in savings this year. Last October the company announced plans to cut 6,000 jobs to save euro800 million in 2012.

The company also aims to raise euro1.5 billion through asset sales, including property and a stake in its Gefco logistics subsidiary.

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