Alliances The Buzz Word For Europe Auto Survival

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GENEVA (AP) — Alliances are the buzz word of European automakers' struggle for survival.

PSA Peugeot-Citroen chairman Philippe Varin said Tuesday at the Geneva Motor Show that a new alliance with General Motors will allow the French automaker to return to long-term profitability in Europe.

There is hardly a potential ally that Fiat and Chrysler CEO Sergio Marchionne will rule out.

"We are open to everything," Marchionne said, even as the fresh GM-Peugeot alliance complicates Fiat's search for potential new partners.

While alliances have been around for a while — some more successful than others — the brutal European car market characterized by plummeting sales, idled factories and fierce competition is pushing many automakers to look for partners for new technology and access to fresh markets without reinventing the wheel.

"This requires more and more investment that nobody can do except through acquisitions and alliances," said Carlos Ghosn, head of the 13-year-old Nissan and Renault alliance. "If Nissan were alone and Renault were alone there were many things we could not do."

Targeted alliances are driven by the logic that a good four-cylinder engine is a good four-cylinder no matter who builds it, and no driver cares about what platform the car is on. Only when it comes to more powerful engines, does brand identity come into play. Maserati and Ferrari, for example, strictly restrict their powertrain technologies to those brands.

The Peugeot-GM alliance is somewhat broader. GM becomes the French automaker's second-largest shareholder with a 7-percent stake, behind the Peugeot family, whose stake drops from 31 percent to around 25 percent.

"It represents an opportunity to build a strong and more profitable business not just in Europe, but in other parts of the world," Varins said, allowing Peugeot to address tightening emissions targets in Europe and strengthen its position in emerging markets in a way not economically feasible on its own.

The two companies, however, will remain independent, Varin said, and free to maintain other more narrow alliances like those Peugeot already has with Ford for diesel engines, BMW for gasoline motors and hybrid technology and Fiat for light

commercial vehicles.

"In some cases, it will allow us to broaden the scope of our partnerships," Varin said, by adding General Motors volumes to Peugeot's annual sales of 3.5 million. Last year, GM sold 12.8 million cars, which could rise to 14 million in 2012.

Recent automotive history is littered with failed partnerships, and Varin said that Peugeot is determined to learn from them.

General Motors entered in a similar alliance with Fiat in 2000. The deal was a stock swap with the same aims of sharing platforms and cutting supplier costs. In ended four years later when Fiat CEO Sergio Marchionne walked away with a $2 billion for the outstanding 20 percent share held by GM, and used the cash to help relaunch Fiat's struggling automotive business.

Marchionne said that GM is a different company after the heavy restructuring forced by the financial crisis in the United States. But he said it was not a deal that would have interested Fiat.

"A 7-percent interest in Peugeot-Citroen without dealing with the issue of integration on the European side, in my view, given our objectives, would not go far enough," Marchionne said. "In the medium- and long-term it may be the right answer and it may satisfy the requirements that Peugeot and GM have. It does not meet our requirements."

The GM-Peugeot deal calls for economies of scale on purchasing and the development of common platforms, with the first products on a shared architecture due out in 2016.

Varin said that the benefits would be evident in five years — and that the deal did not address the issue of idled factories, a point also made by Opel chief Karl-Friedrich Stracke.

Marchionne has warned that unless automakers can take out installed capacity by closing factories to meet current and expected demand levels, one or more automotive companies risk failure. He urged European Union officials to provide a road map in their capacity as the guardians of the single market.

Against that very real possibility of future bankruptcies, analysts believe that Peugeot and GM's Opel subsidiary in Germany will move to close factories first.

"First you need to address the fundamental issue, and that is overcapacity," said senior analyst Tim Urquhart at IHS Automotive.

The Paris-based carmaker lost euro439 million ($578 million) on its car business last year, and is heavily exposed in Europe where it makes half of its annual sales.

GM's European business lost around euro700 million ($940 million) last year, which it is equally determined to turn around.

Varin dampened any speculation that the alliance would be expanded to include other players, saying making it successful will consume a lot of energy.

"Everybody has to focus on the synergies of $2 billion in five years that we have to do," Varin said.

Marchionne said his constant pursuit of new partners is based on the desire to avoid capital waste. The three-year-old Chrysler alliance is keeping Fiat profitable, even as the European business is losing money.

Marchionne jumped at a reporter's suggestion that Volvo was looking for a partner for small engines, and said he was speaking to both Suzuki Motor Corp. and Mazda Motor Corp on possible future cooperation in Asia.

"I am interested in talking to anyone who is interested in sharing anything I have," Marchionne said.

In an example of a successful alliance, Marchionne said Fiat has provided the platform and engine to Ford for its subcompact Ka, and produces it for them in Poland, where Fiat makes the 500, which occupies the same segment.

"I don't think it has impacted one single iota the fact that I actually make that car for Ford," Marchionne said.

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