European Carmakers To Get Serious At Geneva Show

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PARIS (AP) — The Geneva Motor Show has long had a reputation as one of the glitziest stops on the global auto show circuit — the place to unveil luxury models and out-of-this-world fantasy concept cars. But this year the dire state of the European auto industry will hang over the exhibition halls. Hit by fleeing customers, struggling economies and idle production lines, the region's carmakers need to make tough decisions if they are going to survive.

Paul Newton, an analyst at HIS Automotive, an industry consulting firm, says no broad themes have emerged ahead of this week's show and no landmark unveilings are expected — a sign of the industry's malaise and uncertainty. He argues that European automakers need deep restructuring — not just a set of flashy new wheels.

"The Koreans are taking customers from somewhere. And it would appear that these guys are taking customers from the mass-market, established European players," said Newton.

While the European financial crisis has sent unemployment soaring and led to a sustained fall in overall retail sales across the region, Europe's auto companies were struggling even before the global financial crisis hit in 2008. They have long had far more factory floor space and employees than they need to produce the number of cars they can reasonably expect to sell.

This is reflected in the poor results of the Geneva Motor Show's European exhibitors: Last year, Fiat's profit fell 73 percent, while Renault's dropped 15 percent. PSA Peugeot Citroen posted a record €5 billion ($6.5 billion) loss. Of the major European auto groups, only Volkswagen is thriving — profit rose 41 percent in 2012, although that was less than expected.

Meanwhile in the U.S., both General Motors, which will be debuting a convertible Corvette at the show, and Ford recorded healthy — but reduced — profits as strong sales in the U.S. covered losses in Europe.

Even if Europe's carmakers were better able to compete on a global stage, their home market is suffering. Car sales across Europe fell for the fifth year in a row in 2012, pulling back another 7.8 percent, according to data from consultancy PwC. Analysts say sales probably won't climb back to the 2007 peak before at least 2020.

One reason for the poor financial performance is idle factory floors. A report by analysts Alix Partners found that at the height of production in 2007, the industry in Europe was only using 83 percent of its capacity. It's expected to be around 75

percent for the next couple of years. One way carmakers in the U.S. have turned around their operations is by dealing with their own overcapacity problem, shutting 18 factories in four years; Europe has yet to bite the bullet.

On top of this, building a car in Europe is more expensive than in many competitor countries thanks to rigid labor agreements that drive up wages and offer generous benefits. Those same agreements also make it difficult to transfer jobs elsewhere.

The high costs of labor and the overcapacity at factories both conspire to eat into profits — which could otherwise be re-invested in innovation and technology to capture new customers.

The only way forward, analysts say, is to become leaner by tackling uncompetitive labor regulations and closing factories.

This may be harder in some countries than others. In recent months, for instance, the French government and unions have fought plans by PSA Peugeot Citroen to trim its excess capacity by closing its Aulnay plant and eliminate 8,000 jobs.

"The principles behind egalite and fraternite and all the rest are great if you can afford it," said Newton of the generous French contracts that also hamper other European manufacturers.

"The problem is France really can't afford it when it's competing with people who basically make better products at a cheaper price."

Volkswagen, which is expected to unveil a new GTI model in Geneva, has benefited from Germany's more flexible labor laws, which have helped it keep costs lower and continually push innovation. In addition to the rise in profits, the carmaker saw sales jump 21 percent last year.

Carlos Ghosn, head of the Renault-Nissan alliance, has hailed a new partnership with Mercedes as a way to address overcapacity, but said it all comes back to negotiating more flexible terms with workers. The carmaker is planning to eliminate 7,500 jobs in France over the next three years, mostly through attrition.

"It's a win-win relationship, which allows us to increase the utilization rate at Renault's factories, while keeping our partners from investing in new production capacity," he told Le Monde in a recent interview.

Ghosn and his competitor CEO Philippe Varin of PSA will be using Geneva to persuade the press and their customers that 2013 represents a new beginning.

But as Laurent Petizon, an analyst with Alix Partners, stresses, if manufacturers are going to make a new start once the current economic and industrial downturns begin to ease, they have to learn the lessons of overcapacity and inflexibility.

"The crisis is an opportunity to reform the industry once and for all," he said. "There will be growth, maybe in two years. But to capture it, you have to be healthy!"

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