



Car Production Surges In Eastern Europe.(Business/Financial Desk)(There's Detroit and There's Trnava).John Tagliabue. *The New York Times* (Nov 25, 2006): pC1 (L). (1720 words) Reading Level (Lexile): 1700.

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For Slovakia, the recent inauguration of an \$890 million automobile factory was a major event. The prime minister and other government officials attended. French executives from Peugeot Citroen, which built the factory, flew into the tiny town of Trnava, where the sprawling factory is expected to employ up to 3,500 people and churn out as many as 300,000 compact cars a year. After the collapse of Communism in 1989, many foreign carmakers rushed to acquire local carmakers or build their own factories in countries like Slovakia, Poland, Hungary, Romania and the Czech Republic.

That relative trickle, though, is now a flood. The money has been pouring in, and the pace and frenzy is prompting talk of Europe's auto industry shifting from west to east.

By 2010, the Czech Republic could nearly double its production over last year, to more than a million cars. Indeed, as a whole, Eastern Europe has become Europe's backyard manufacturing center, and it could be producing 3.4 million cars annually by 2010, a 33 percent jump over 2005, according to forecasts by PricewaterhouseCoopers. Even Russia's production is expected to rise to 1.6 million cars a year from 1.2 million now.

That kind of growth can only be envied by more established carmaking countries: the United States could be making some 12.6 million cars, a 9 percent jump over last year, and Japan about 10.3 million, a mere 2 percent increase from last year.

By contrast, Britain is expected to drop to 1.5 million from 1.8 million in 2005. France is expected to stagnate at 3.6 million, compared with 3.5 million last year. Belgium was struck a blow recently when Volkswagen said it was stopping production in a plant near Brussels, eliminating 4,000 jobs. Even before Peugeot opened its Trnava plant, it announced that it was cutting 11,000 jobs, mainly in Western Europe. The move included closing a plant in Ryton, England.

This year, car production in Central and Eastern Europe, excluding Russia, is on track to exceed 2.4 million vehicles, as carmakers from Europe, Asia and the United States pour billions of dollars of fresh investment into local factories.

That may be a fraction of the 57.5 million cars made last year in the 20 top automobile-producing nations in 2005. But the explosive growth contrasts starkly to plans by many automakers to scale back employment and thus production in Western Europe and the United States. Within the last year or so, General Motors, Toyota, Volkswagen, Peugeot, Fiat, Suzuki, Hyundai and Kia have announced plans to build or expand assembly plants in the region. "Making a car is not like making a plastic bag," said Sigrid de Vries, the spokeswoman for the Association of European Automobile Manufacturers in Brussels. "You have to be close to the market and flexible, you have to be close to the customer, and this requires a certain reorganization."

The reasons for Central Europe's new wave of growth are complex. For one thing, the region, together with Russia and China, is one of the world's great untapped auto markets.

Sluggish auto industries under the old Communist regimes left many families without cars. Local governments championed local automakers, like Skoda in the Czech Republic and Dacia in Romania. They were driven to near ruin under Communism, but some of those automakers were then bought by Western carmakers after 1989, when Volkswagen acquired Skoda and Renault bought Dacia.

High gas prices in the West have also encouraged consumers to start shifting from big cars and S.U.V.'s to the kind of compact cars that are a specialty in Eastern Europe. Above all, labor here is the cheapest in the region.

Engineers in Slovakia earn half of what Western engineers make, and assembly line workers one-third to one-fifth, according to Alain Baldeyrou, Peugeot's plant manager in Trnava. If that does not sweeten the region for foreign carmakers, East European governments offer incentives, from financing some of the investment to offering a low flat-and-simple tax on employee wages and corporate profits, as in Slovakia, where all taxes are a simple 19 percent. By 2010, new investment will lift the region's production to just below that of France, which is expected to be making 3.59 million cars that same year, and more than twice that of Britain, where production will drop to 1.49 million, from 1.77 million in 2005.

"Central Europe is in the European Union, it has the advantage of a stable economy, and they want the euro," said Matt Pottle, central European automotive director for PricewaterhouseCoopers. He added that this was likely to mean far slower growth in some Western countries that now specialize in small-car production, like France and Spain.

It will also create more manufacturing jobs in the four major Central European countries, where the number has already risen to 284,507 in 2004, the last year for which figures are available, from 235,826 five years earlier; during the same time, such jobs fell slightly to 1,978,338, from 1,991,848 in Western Europe.

"Their largest challenge may be potential shortages of qualified labor," Mr. Pottle said, noting that "prices of labor are rising quite rapidly."

Within recent months, European carmakers have introduced a variety of new models that they will assemble in their Eastern European assembly plants. At the recent Paris Auto Show, Renault featured the Logan, a four-door car assembled in Romania, starting at 5,700 euros (about \$7,200) in Eastern Europe.

"Today, Europe is a price market," said Stephane Lemperier, a Renault executive, where consumers buy based on low prices. When Ford introduces an update of its successful subcompact, the Ka, which is now assembled in Valencia, Spain, the new model will be built at a factory Ford will share with the Italian automaker Fiat in Tichy, in southern Poland, where Fiat will assemble a new version of its popular Cinquecento.

But Eastern Europe is not making just cheap small cars. Volkswagen assembles its Touareg S.U.V. and the big Q7 of its Audi affiliate in Slovakia; Porsche assembles the body of its expensive Cayenne in a factory near Bratislava, and then ships them to Germany for finishing.

And the automakers are pulling their suppliers into the region as well. Peugeot officials said that steel coils for the Trnava plant now come from mills in France, Germany and Austria. But they

plan to begin using Slovak steel next year after U.S. Steel brings online a \$160 million hot-dip galvanizing mill, able to make 385,000 tons of automobile-grade steel sheet a year, in Kosice, in eastern Slovakia.

Seats for the Trnava plant are manufactured by Faurecia, a Peugeot-controlled company, at a suppliers' park near the main factory. Slovakia, the Czech Republic and Poland have been vying to attract suppliers for the big new assembly plant Hyundai is building at Novosice in the eastern corner of the Czech Republic, a short drive from Slovakia and Poland.

With many of the countries of Eastern Europe now in the European Union, cars from the region enter Western Europe without duties, essentially erasing the border for the automotive industry. Countries not in the union that are protectionist, like Russia, are also attracting investment of their own.

G.M. may be losing money elsewhere, but it expects to almost double its sales in Central and Eastern Europe, including Russia, within the next three years, and to expand its dealer network in the region by 80, to about 480, according to Automotive News Europe.

This summer, G.M. opened a plant near St. Petersburg to assemble the Chevrolet Captiva, a midsize S.U.V.; by 2008, G.M. hopes to bring online a \$127 million plant nearby to assemble about 25,000 vehicles a year.

The decisions to move assembly plants east raise awkward questions among workers and their labor union representatives in the West. Labor union leaders in Germany, with the backing of leaders in other countries, have been pressing the European Union to limit the kinds of incentives that Eastern European countries offer automakers to settle there.

Union leaders are as irate as they are helpless. "It's a deliberate act of vandalism by the company," said James O'Boyle, a union leader at the Ryton plant, just north of Coventry, that is scheduled to close. Peugeot, he said, would lay off about 2,800 workers in Ryton, and though unemployment in the region is low, at about 4 percent, the auto workers would have to settle for inferior jobs.

"No doubt people can find jobs, if they take immense cuts in wages and cuts in benefits," Mr. O'Boyle said. "Some people will go on to better things, but they are a minority."

Jean-Martin Folz, Peugeot's chief executive, denied that the closing in Ryton and the expansion in Trnava reflected a repositioning of the industry eastward. "What you are observing is the economic growth of the European Union," he said, "the growth of manufacturing here." Ryton was closed, he said on the edge of the inauguration ceremony, "because it was the least profitable of our factories."

The new plant has been a boon to locals, like Stefan Bosnak, Trnava's mayor, who attended the ceremony. He said that unemployment had dropped to about 5 percent from 13 percent three years ago for the region of 70,000 people, which had a reservoir of skilled engineers left over from the Communist arms industry.

Mr. Baldeyrou, the plant manager, said wages were not the critical factor. "The share of salaries in the price of a car is about 15 percent," he said. "Materials form the greater part, not wages." And in the former Communist countries, unions pose few threats for foreign investors. Fewer than half a million of Slovakia's work force of 2.3 million are unionized, and the number is falling.

"People are doing a good job; there are good social benefits," said Ivan Stefanec, a member of Parliament from the region. "So there is no immediate need for unions."

CAPTION(S):

Photos: Peugeot officially opened a new \$890 million factory last month in Trnava, Slovakia. The plant is expected to employ up to 3,500. (Photo by Didier Mallac/REA)(pg. C1); Peugeot plans to shut its factory in Ryton, England, laying off about 2,800. Car production in Western Europe is shrinking. (Photo by Darren Staples/Reuters)(pg. C9)

Chart: "EASTERN EUROPEAN CAR PRODUCTION"

Graph tracks quarterly car production for Czech Republic, Hungary, Poland and Slovak Republic from 2003 through September 2006.

(Source by European Automobile Manufacturers Association)(pg. C1)

Source Citation: Tagliabue, John. "Car Production Surges In Eastern Europe." The New York Times (Nov 25, 2006): C1(L). New York Times. Gale. Library of Michigan. 7 Oct. 2008
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Gale Document Number:A154923111

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