

How COVID-19 is spreading through the auto industry.

COVID-19 has provoked an unprecedented crisis in the sector with an effective standstill of car production in Europe and a closed retail network. In the middle of March and within a couple of days the automotive industry across Europe came to an almost complete lockdown. Production lines fell silent. Factories across the region were mothballed. The coronavirus interrupted the very sophisticated supply chains with its just-in-time logistics. Because of transport restrictions and closure of dealerships, it has also become almost impossible to deliver cars to customers or for customers to order cars. Sales came to a halt under corona restrictions (in some countries it has even become impossible to register a car as public offices are closed). The shock to the automotive sector delivered by the coronavirus pandemic made S&P decide to downgrade Ford to junk status

On the other hand, companies have announced to maintain the production and distribution of spare parts (crucial for public safety and essential maintenance) and the R&D activities related to new powertrains. However, because of the standstill the market introduction of many (low-carbon) models has been delayed which could have an impact on the further decline of CO₂-emissions.

According to ACEA, the business organisation of the automotive manufacturers, the jobs of 1,1m workers with car, bus and truck factories (thus not taking into account the employment with suppliers) are currently affected by the crisis (569.000 in Germany, 90.000 in France, 69.000 in Italy, 65.000 in the UK, 60.000 in Spain and 45.000 in the Czech Republic).

To deal with the consequences for the workers, most of the companies apply the nationally agreed conventions/rules on short-time work. But companies are also banking the lost working days to make up for lost production in a later stage. However, while relying on public funds to pay the workers, companies continue to pay dividends: capitalism at its best.

Vigorous measures will be needed to avoid plant closures and the permanent loss of jobs in a sector that was already facing a slump in demand during 2019 (industrial production minus 12%). As the sector has high fixed costs (high capital-intensity) many companies will very soon face liquidity problems in the short- and medium-term. Therefore, ensuring liquidity, relaxation of state aid rules, tax breaks, investments guarantees, and soft loans will be very critical during the period of lockdown in order to keep companies. In the long-run it must be assessed to which extent COVID-19 will have an impact on the capacity of the sector to respect regulatory commitments.

Widespread bankruptcies could also affect the many cash-strapped smaller suppliers in the sector. This could seriously hamper the restart of the finely tuned automotive supply chains. Therefore, it is important for the smaller suppliers that payment terms are respected and that they don't have to pay fines when they are not able to deliver timely because of the exceptional circumstances created by corona.

Most of the companies, confronted with cash drain, are preparing to resume production in the second half of April (if legally allowed). But it must be seen to what extent this is possible with respect of the national confinement measures. It will also require far reaching measures to minimize contagion risks: testing workers, availability of protective clothing and masks, risk assessment of workstations, respect of rules on social distancing (ample spacing at each workplace), regular disinfection of tools and surfaces, all of this resulting in lower daily production rates. A second wave of contaminations must be avoided at all costs.

A coordinated, programmed and EU-wide approach of the restart is needed as it makes no sense to start-up an assembly line in a country when the suppliers of this assembly line based in another country are still at a standstill.

In its latest Communication on the future European industrial strategy the Commission stressed the importance of critical value chains. It launched the idea to set up industrial ecosystems for these sectors, bringing together all relevant stakeholders. Setting up such a network for the automotive ecosystem now couldn't be more timely as it could play an important role in monitoring the development of the corona crisis, developing criteria and guidelines regarding health and safety, designing a common exit strategy and timeline for an orderly and gradual restart of the sector, and, finally, ensuring that the return to work occurs in a uniform way. It is of utmost importance to ensure that all stakeholders in the sector can deal with the fall-out of the corona crisis in a coordinated way.

Situation per company

Aston Martin was the last car producer to halt production. Together with other British producers of luxury and niche manufacturers like McLaren, Lotus and Morgan, it decided on March 24 to halt production until April 20.

BMW started suspending production at its plants in Europe and Rosslyn (South Africa) on March 20. The shutdowns will last until April 19. The closures include Mini and RollsRoyce in the UK. BMW's contract manufacturer in Born, Netherlands (Nedcar), which builds some Mini models, is also shutting down.

Daimler is halting most Mercedes production in Europe. It aims to reopen its factories in Germany, France (Hambach) and Hungary between April 20 and 22

Ferrari extended the shutdown of its two Italian plants until April 14

Fiat Chrysler suspended production at the Italian plants of Atessa, Melfi, Pomigliano, Cassino, Mirafiori, Grugliasco and Modena. FCA's factories in Kragujevac (Serbia) and Tychy (Poland) are also closed. On April 14, the automaker aims to restart assembly lines for the Jeep Compass and new hybrid models in Melfi in southern Italy, re-open Atessa's plant making vans in central Italy and resume preparatory operations for the new electric 500 in Mirafiori. But this is conditional on the lifting of the lockdown in Italy (according to the latest news this will not be the case before May 1). In the US three FCA workers with COVID-19 died, according to the UAW (United Automotive Workers)

Ford suspended vehicle and engine production at its manufacturing sites in Europe (Cologne, Saarlouis, Valencia, Craiova, Dagenham, Bridgend), starting on March 19.

Honda is suspending production in Swindon in the UK (the plant will be closed anyhow in the course of 2021). Reopening of the plant will depend on advice from government and health authorities, as well as market and supply conditions

Hyundai-Kia intends to re-open its factories in the Czech Republic, Slovakia and Turkey on April 14

Jaguar Land Rover - The company is halting output at its UK plants starting March 23, and it intends to resume production at the facilities in the week of April 20. It is suspending production at its plant in Nitra (Slovakia), starting March 20. Its plants in Brazil and India are continuing their operations

Nissan has stopped output at its site in Sunderland (UK) as it assesses supply chain disruption and the drop in demand. Nissan said the factory would remain closed until further notice (until the end of April at least).

PSA Group is establishing a timetable for a “gradual and safe resumption” of industrial activities at its European factories. The move affects plants building Peugeot, Citroen and DS vehicles, as well as Opel's factories in Germany and Poland, and the Vauxhall plant in the UK (Ellesmere Port). PSA's joint-venture with Dongfeng in Wuhan the epicenter of the coronavirus outbreak, restarted its production,

Renault has shut down its factories in France, Spain, Slovenia, Morocco and a powertrain factory in Cacia (Portugal), until further notice. Dacia has suspended production in Pitesti (Romania) but did not specify when it might resume production. The Bursa plant in Turkey closed on March 26 because of disruptions in the supply chain. Production was also halted at the seven factories in South America. Renault's plants in China and South Korea remained open.

Toyota suspended vehicle and engines/transmissions production in Europe (France, Turkey, Poland and the UK), the Russian facility remaining open. Restart is not expected before April 20.

Volkswagen

- VW brand has suspended production at its German vehicle and component factories. VW plants in Pamplona (Spain), Setubal (Portugal) and Bratislava (Slovakia) are also closed.
- Audi has stopped production at its factories in Ingolstadt and Neckarsulm (Germany), Brussels, and Gyor (Hungary)
- Seat has halted its output
- Skoda suspended production at its Czech plants for two weeks starting on Wednesday, March 18
- Lamborghini halted production in Bologna, Italy
- Porsche is stopping production for an initial period of two weeks, starting March 21
- Bentley is stopping production at its factory in Crewe, England, for four weeks starting March 21
- Due to shortage of supply from Europe, production is suspended in VW's Russian factory in Kaluga and at the assembly line of VW's contract manufacturer GAZ in Nizhny Novgorod

Volvo will stop production at its three plants in Sweden starting on March 26. The plants are scheduled to re-open on April 14. Volvo also stopped production in Ghent on March 17, which is also expected to re-open on April 14.

Magna Steyr is halting production in Graz, Austria, and Slovenia until 6 April because of parts shortages. The contract manufacturer builds cars for BMW, Jaguar, Mercedes and Toyota.

Valmet, the Finnish contract manufacturer has suspended production until May 5.

Suppliers

- **Autoliv** in Hungary stopped production as of March 25
- **Continental** temporarily shut 40% of its 250 production sites worldwide. It also announced to spin-off its engine-making unit. On the other hand, production in its 50 Chinese sites is almost back to normal
- **Leoni**, a supplier of wire systems announced to stop production in Europe, the Americas and North Africa, and plans to apply for state aid with the German KfW state development bank.

- **Robert Bosch** is reducing production or suspending work at its plants in France, Italy, Spain in response to lower demand, supply chain bottlenecks and as a way to protect its employees.

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