European factories at risk in Peugeot-Fiat merger

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Fiat Chrysler and Peugeot owner PSA’s pledge not to close factories if they merge is likely to come under heavy strain as the combined group would have spare production capacity of almost six million vehicles in a slowing autos market.

The companies last week unveiled plans to create a $50 billion group that would leapfrog Hyundai, General Motors, Ford and Honda to become the world’s No.4 automaker, based on their combined 8.7 million vehicles sold last year.

The new car and truck making giant would have potential manufacturing capacity of 14 million vehicles, forecasters LMC Automotive told Reuters. But the industry has entered a downturn and the European small car market in particular – where both PSA and Fiat Chrysler (FCA) are heavily exposed – is under pressure.

“The utilization rate would be low at 58%, which would leave the group with almost six million units of spare capacity worldwide,” LMC Automotive said. “Europe is likely to bear the brunt of any potential plant closures.”

Labor unions and politicians have already voiced concerns about job losses, and both France-based PSA and Italian-American FCA have ruled out factory closures in an attempt to quell fears.

But a deadline to meet 2021 and 2025 emissions goals in Europe adds pressure on FCA to adopt PSA’s more efficient engines, calling into question some of FCA’s engine plants in Europe – mainly in Italy, as well as in Poland – in particular.

“The focus will be Europe, where sub-scale product lines, powertrains and future EV (electric vehicle) investments could be combined,” Bernstein Research analyst Max Warburton, said in a recent note.

A combined PSA-FCA would have a market share of 22% in Europe, September registration data from auto industry association ACEA shows, leapfrogging Volkswagen which, with a market share of 20%, has been the largest carmaker in Europe.

Vulnerable

PSA has already helped Opel, bought from General Motors in 2017, to make progress with emissions targets by rolling out the group's small car platform and engines to the Opel factory in Zaragossa, Spain, where it builds the Opel Corsa.

The CMP platform is now used in factories in Poissy, France, Trnava, Slovakia, and Kenitra, Morocco to build Peugeot, Citroen and DS branded vehicles, and could be extended to fit FCA's Lancia, Alfa Romeo and Fiat models to boost economies of scale.

The market for small cars is under pressure because emissions rules are forcing entry level cars to add complex catalytic converters, making them less affordable.

"Under the new CO2 targets these cars will need to get several updates that will be expensive. This will force some players to drop some of these models as the level of investment is very high," according to Felipe Munoz, global analyst at JATO Dynamics, a forecasting firm.

PSA has already axed the Opel Adam and Karl models because it became uneconomical to make these entry level vehicles emissions compliant. Meanwhile, Ford has dropped its Ka model, which shared a platform with FCA's Fiat 500.

Overall, the market share of cars in the so-called A and B small car segments is expected to shrink to 38% in Europe by 2021, down from 40% last year, whereas demand for sports utility vehicles is expected to hold up well, LMC's Sammy Chan said.

As a result, low volume manufacturing plants in Europe are increasingly vulnerable, such as Fiat's Kragujevac factory in Serbia and PSA's Vauxhall plants in Ellesmere Port and Luton in Britain, LMC said.

In terms of engine plants, PSA has major operations in Tremery and Douvrin in France, and has also retooled the former General Motors Szentgotthard factory in Hungary. FCA's Fiat, Lancia and Alfa Romeo brands currently source their engines from plants in Termoli and Pratola Serra in Italy, as well as the Bielsko-Biala plant in Poland.

"In terms of engine plants, it is likely that in the long term, one or two FCA plants in Europe would no longer be needed," LMC said.

(Reuters)