FIAT Faces Bankruptcy, Amid World Auto Crisis

by Claudio Celani

Italian automaker FIAT is threatened with bankruptcy as a consequence of accumulated debt, a sales crisis and plunging market capitalization. FIAT's debt at the end of 2001 was 238% of its assets (in 1993 it was "only" 140%). In two and an half years, FIAT's market capitalization has collapsed from $12 billion to $1 billion. At the end of 2001, FIAT's net indebtedness was $6 billion, and currently the company is losing $1.5 billion per year.

While worldwide, the automobile sector has been hit by the depression, with declining sales in 2002, FIAT was hit harder than its competitors; whereas, by April, the whole European Union saw a 2.6% decline in auto sales from the year before, FIAT lost 20.1%, its market share falling from 10% to 7.9%. The management has reacted to the crisis with dramatic production cuts and 8,000 layoffs in July. As a result, FIAT production in August dropped 51.5% from 2001, affecting total Italian industrial production, which fell 7%.

Since FIAT represents the entire Italian auto industry (its auto division includes FIAT, Alfa Romeo, and Lancia, and Ferrari belongs to FIAT's holding company) its crisis has become a national issue. The loss of FIAT Auto would mean the loss of Italian auto production altogether. This perspective has prompted the government to seriously consider a plan for a state bailout. FIAT's management has asked for state aid, and has presented a so-called restructuring plan. However, FIAT's conduct so far has supported allegations that the group's management has no intention whatsoever to rescue FIAT Auto; on the contrary, indications are strong that the owners, the Agnelli family, are now pulling the strings of a long-planned strategy to get rid of the auto division and concentrate on the high-yield sectors of energy and insurance. To most Italians, this sounds like nothing less than national betrayal.

Looting FIAT Auto

And indeed, if one looks back at FIAT's history, one can see that the seeds of betrayal were laid, when current FIAT owner Gianni Agnelli, grandson of founder Giovanni Agnelli, took over the firm in 1966. FIAT under Gianni Agnelli is a typical example of what Lyndon LaRouche has identified as the paradigm shift from a competent industrial management, to cost-benefit kinds of modern accounting practices.

Already the second largest automaker in Europe after Volkswagen, FIAT was run under a strictly centralized management, and basically as a family-owned firm. Gianni—a playboy educated in Great Britain and co-opted into Pamela Harriman's and David Rockefeller's salons—started to introduce "modern Anglo-Saxon methods" of management, which progressively impoverished FIAT's capacity to produce high-quality cars and reinvest surplus in technological improvements. At the beginning of the 1970s, Agnelli brought in a new generation of managers from the Olivetti firm, who had the bizarre idea that the automobile had no future and that FIAT should start to "diversify," i.e., move into other sectors like construction, etc.

The oil shock of 1973 found FIAT so unprepared, that the company was rescued only by the entrance of Libya as partner, with fresh capital. Eventually, FIAT Auto was relaunched by a new manager, Vittorio Ghidella, who was able, in 1989, to achieve a 10,7% current account surplus on its turnover. The following year was the beginning of the current crisis. Not accidentally, 1989-90 is the year of the fall of the Soviet Empire, and the start of the so-called "globalization" policy under Margaret Thatcher and the George H.W. Bush Administration.

Agnelli, a member of the Anglo-American establishment, is a player in the new game. FIAT must "invest" in sectors with short-term high yield, like banks, insurance, services, and utilities. Where does he find the money? Simple: by looting FIAT Auto. In 1988, FIAT Auto had scored its highest profits, $2 billion. Ghidella wanted to reinvest the profits in the auto sector, expecting "hard times." But Agnelli needed the money to buy his new toys. Ghidella was defeated and left FIAT Auto.

In 1993, profits at FIAT Auto had already plunged to –4.4%. In the following years, except for a 4.6% gain in 1997, there was a steady decline. In 2002, FIAT Auto again lost 4.1%. Debt has become unmanageable. Investments in research have dropped to half as much as FIAT's European competitors invest. Despite that, FIAT engineers (generally coming out of Turin's Politecnico) are still producing innovations: ABS and Common Rail were patented by the FIAT Research Center. But instead of industrializing them, FIAT has sold the patents abroad.

In the meantime, FIAT Holding (Agnelli) went shopping, taking loans for the purpose, on top of looting the auto sector. According to the trade union magazine *Rassegna*, "a consistent quota of the debt comes from the policy of acquisitions implemented at the end of the 1990s: in particular Pico [capital goods] and Case [agricultural machinery]."

'Shareholder Value Gone Mad'

By 1999, it was clear that FIAT Auto was in trouble, and that the crisis could be solved only through a massive investment plan. But instead, FIAT decided to sell. In March 2000, a deal with General Motors was announced, whereby GM purchased 20% of FIAT Auto (paid with 5% of GM stock), on the condition that GM has the right to purchase the remaining 80% (a "put" option) in 2004. To most, this was a signal that Italy was losing its auto industry. For the Agnelli family, it became only a matter of reaching 2004 with the highest possible "shareholder value," to make some profit in the sale.

But in 2001, the FIAT group lost $6 billion. The situation was still manageable, but in Spring 2002 a run on FIAT Auto stock was prompted by a *Financial Times* article suggesting that FIAT Auto would be sold early to General Motors. From a peak of 46 euros in 1998, FIAT Auto stocks collapsed to 8 euros in October. The crisis was now going out of control.

FIAT has not changed its strategy. The "plan" announced in May, aimed at drastically downsizing FIAT Auto in order to boost its shareholder value—basically to avoid being forced to sell to GM for a dime on the dollar. Eight thousand workers would be laid off and two factories in Italy closed: one in Termini Imerese, Sicily, and the other one in Arese, Milan. Especially the Termini Imerese closure would have devastating social repercussions in an underdeveloped area. One calculates that for each FIAT worker there are three workers in the feeder industries, who will be unemployed. FIAT demands that the state pay the "short-work" benefits for the unemployed.

Italian workers were again demonstrating nationwide on Oct. 18, with the FIAT crisis and its threatening mass layoffs one focus; the Berlusconi government is playing by IMF rules, even while the Parliament calls for a new monetary system.

Additionally, FIAT plans to sell some "crown jewels" to help balance the debt, claiming that it all aims at re-launching auto production. But among the crown jewels on sale are Comau and Magneti Marelli—the former a producer of machines and the second a producer of components; what is the logic of selling exactly what you need for improving your production?

GM Is No 'White Knight'

Italy's government is willing to intervene in order to save the Italian auto industry, but it demands that FIAT offer a credible industrial plan. The same goes for the trade unions, which have announced a general metal workers strike for Nov. 15. Initially, the possibility that the state become a shareholder of FIAT was considered, and supported even by the European Commission. But this option collapsed when General Motors announced that they would oppose it. In order to make their threat concrete, in mid-October GM announced a devaluation of its FIAT share to current market value—from $2.4 billion to $200 million!—thus signalling that they might value the remaining 80% accordingly. That move prompted the third player, creditor banks, to align with GM and also refuse state participation.

Even if everybody was angry with the Agnelli family, which was held the sole responsible for the FIAT crisis, a sense of impotence prevailed, in suggesting that the sale to General Motors was inevitable, and that the Italian government could only help to fix a decent price and set conditions for GM to keep some auto production in Italy.

But a look at General Motors, the shareholder that is to "save" FIAT Auto, possibly for a dime, shows that GM—and the whole auto industry—has problems comparable to, if not bigger than, FIAT's. GM has outstanding corporate bonds amounting to $187 billion. Its competitor Ford runs another $162 billion, comparable to the foreign debt of Argentina. In expectation of a severe downturn in car sales worldwide next year, in the second week of October, GM and Ford bond prices sank to junk-bond levels. After a downgrading by Standard & Poor's on Oct. 16, GM bond prices fell sharply, corresponding to a rise of bond yield from 8.14% to 8.59% within 24 hours. Yields on Ford Motor even jumped up to 9.44%, a level normally restricted to the bonds of "junk"-rated corporations.

The FIAT crisis, it was suggested in a recent TV show, would require the presence of another Enrico Mattei, the epic industry captain who, in 1946, was commissioned to liquidate another bankrupt firm, the state oil company AGIP. Mattei, instead of obeying the liquidation instructions of the Italian government (which was under pressure from the private sector), kept AGIP and rebuilt it into a national oil giant, making out of it the pivot of Italy's postwar reconstruction.

Today, on the 40th anniversary of Mattei's death on Oct. 27, 1962, he can be commemorated by suggesting that the Italian auto industry must not be liquidated; Italy needs a "Mattei solution" for FIAT, supported by the government in the context of a national recovery policy.