European companies face coronavirus hit to supply chains

Italian auto supplier warns car groups' production lines may be brought to a standstill

Robotic arms fit doors to Volkswagen AG electric automobiles on the automaker's assembly line in Zwickau, Germany. VW chief executive Herbert Diess said that coronavirus had hit its production lines in China © Bloomberg

Joe Miller in Frankfurt, **Martin Arnold** in Berlin and **Miles Johnson** in Rome YESTERDAY 15

Four of world's biggest carmakers will be forced to shut down European production, one of the sector's key suppliers has warned, after an electronics factory in Lombardy was forced to close by the Italian authorities amid the rapid spread of the coronavirus.

Electronics manufacturer MTA said that if its 600 employees in the northern Italian town of Codogno were not allowed to return to work within days, production lines at Fiat Chrysler (FCA) subsidiaries would be brought to a standstill.

"All the other FCA plants in Europe and those of Renault, BMW and Peugeot will close too," MTA said.

Maria Vittoria Falchetti, MTA board member and granddaughter of the company's founder, told the Financial Times that the factory's closure "is going to have a disastrous impact on the global supply chain".

Ms Falchetti said that the factory had been shut since 10pm last Friday after the first infections were discovered. MTA has pleaded with the Lombardy regional authorities to be allowed to reopen to deliver manufactured goods, but has been refused.

"We have been asking the authorities but they are not listening to us. If we were allowed to at least run at 10 per cent capacity then we would at least be able to then deliver what is already in our warehouse to minimise the disruption, but they have said no," she said.

MTA's statement marks the first forecast of a shutdown at a large German carmaker's domestic sites.

Coronavirus has affected European carmakers' production lines in China since last month, but the knock-on effect on the continent's local suppliers is only now beginning to be felt, as large stockpiles helped manufacturers weather delivery constraints.

Volkswagen, Daimler and BMW, all of which rely heavily on profits made in China, have repeatedly insisted that the full impact of the coronavirus on its supply chains was not fully known, due to the complexity of their procurement contracts.

Responding to MTA's notice, a BMW spokeswoman said there was "currently no impact on the security of supply".

"Our purchasing experts are monitoring the situation," she added.

All companies are looking for alternatives in sourcing their suppliers, but we know it will be hard and it is not clear how long that will take

Friedolin Strack, Germany's BDI industry federation

The full impact of the shutdowns in China has also not been felt by European industry, officials at Germany's BDI industry federation said on Wednesday.

European companies fear that the supply of critical parts from Chinese producers will be cut off in the coming weeks by coronavirus-related disruption, despite production in China slowly restarting this week, said Friedolin Strack, head of international markets at BDI.

Container shipping traffic between Chinese and German ports has fallen sharply and supply chains are in danger of being "broken" by next month, he added.

"There have been no immediate breaks in the supply chain so far, but what we are receiving in harbours today was shipped four to five weeks ago, so the shortages will be coming in the next few weeks," Mr Strack said.

He gave the example of an additive used to make paper for credit card receipts that is mostly made by a producer near Wuhan — the area of China hit hardest by the coronavirus. He added that the carmaking, electrical equipment and pharmaceutical sectors were also expected to be hit by shortages of supplies from China.

Herbert Diess, chief executive of Volkswagen, said its production and sales were slowly restarting in China after an almost four-week gap, but they remained at a low level. VW is the largest foreign carmaker in China, which is the world's biggest car market.

"Basically we lost February in China," Mr Diess told the FT in an interview. "This is a month where we had very little sales and very little production, but I just talked to my Chinese colleagues. Sales are carefully picking up; on a low level, but we're going up again."

The impact of coronavirus "will depend a lot on whether the problem really can be contained in the first quarter", Mr Diess said. "If so, I think there is a good chance we can recover a lot of the losses. If it drags through to the first half of the year, it will have an impact."

Economists fear that the impact of the virus will compound the woes of European manufacturers, which have suffered two years of falling orders and production, and weigh on weak growth in the eurozone, which last year fell to its lowest level in seven years.

Paolo Gentiloni, the EU's economics commissioner, on Wednesday warned the coronavirus posed a material downside risk to eurozone economic growth but said the commission would remain "cautious" in its forecasting of any potential recession.

"The only certainty is that we will have an economic impact [in Europe], but an assessment and serious forecast is not yet possible," he added.

The commission will not produce an emergency forecast to quantify the risks to growth; it will instead wait for its spring set of forecasts that are due in April.

The European Central Bank is due to hold its next monetary policy meeting on March 12 and is facing calls to cut rates and step up its bond purchases.

Gabriel Makhlouf, governor of the Central Bank of Ireland and a member of the ECB's governing council, said that while it was clear coronavirus would have a negative impact on the eurozone economy it was "too early" to say how serious this would be.

Without an estimate from medical experts on how quickly the virus can be contained, it would be "very difficult" to make a decision on any change to monetary policy, Mr Makhlouf added.

Mr Strack at the BDI said it was proving difficult for Chinese manufacturers and German companies producing in China to pick up production again.

"It is difficult to raise production to the full level when only 50 to 80 per cent of workers are present and where possible people are trying to work from home and to avoid public transport," he said.