

# 8

## The Next Ring: The Emerging Southeast Europe Auto Zone

### Introduction

This chapter provides a brief history of foreign passenger car plants in Romania, Serbia, and Slovenia, or the area dubbed in [Chapter 2](#) as the SEE Auto Zone. Its discussion focuses upon: (1) Renault-Dacia Pitesti in Mioveni, Romania; (2) Ford Craiova in Romania; (3) Fiat-Zastava Kragujevac in Serbia; and (4) Renault-Revoz Novo Mesto and the rumored Magna Steyr Hoce-Slivnica in Slovenia. Similar to other chapters, the narrative concludes with a summary of passenger car output in this emerging next ring of Europe's automobile production chain after 1989.

### Renault-Dacia Pitesti in Romania

#### Dacia Beginnings as UAP Mioveni

During the late-1950s, Romania was given approval by the CMEA to launch a small passenger car industry to accommodate local demand. This began at the *Intreprinderea Mecanica de Stat* (IMS) motorcycle factory in

Campulung, Arges County with IMS-57 mini jeeps in 1957. The IMS-57 were derived from Soviet GAZ 69-based 4X4. The IMS-57 was succeeded by the Automobile Romanescu (ARO) M461 in 1963, a vehicle that helped create a niche for Romania in the CMEA. ARO continued building passenger jeeps and off-roaders in Campulung until 2003, when it was sold to an American businessman and production was shifted to Brazil.<sup>1</sup>

In 1966, news out of Europe suggested that the Romanian Government had established its first passenger car company, *Uzina de Autoturisme Pitesti* (UAP), situated 120 km northwest of the capital of Bucharest in the country's historic region of Dacia. By August 1966 negotiations involved British Motors (Austin), Alfa Romeo and Fiat of Italy, and Peugeot and Renault of France regarding the construction of a 50,000-capacity joint venture car factory. To help the government decide, it tested the Austin Mini, Alfa 1300, the Renault 10, and Peugeot 204. The government made its decision on February 8, 1967, selecting the France's State-run Renault to collaborate with on the plant. Plans called for the facility to be erected 15 km (9.5 miles) north of Pitesti in the Arges County settlement of Colibasi, in today's Mioveni municipality. Production of the soon-to-be released Renault 12 (R12) was scheduled to begin by no later than 1969, with annual car output to gradually rise to 40,000 by the early-1970s.<sup>2</sup>

As presented in [Table 8.1](#), output of licensed Renault 8 (R8) small sedans badged as Dacia 1100 commenced at UAP's Mioveni Motorcar Works on August 20, 1968. The R8, which at the time also was being assembled in Lovech, Bulgaria, was considered a stopgap measure until UAP was fully equipped to build the upcoming R12. This came on August 23, 1969, when assembly of CKD kits of the R12 stamped as Dacia 1300 *Li Berlina* (sedan) launched in Mioveni. Over time, local components replaced imports from France, and by 1972 the Romanian factory had ended kit production and manufacturing full-fledged Dacia 1300. A total of 37,546 Dacia 1100 were produced when its three-plus year run concluded in 1972.

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<sup>1</sup> Dacia Beginnings was based primarily upon: Georgano (2000); Thompson (2011); Agerpres (2014); other citations are provided where appropriate.

<sup>2</sup> WJS (1966), UPI (1967).

**Table 8.1** Foreign passenger car plants in SEE Auto Zone

Firm	Origin	Place, Nation	Announced	Production launched	Emp. 31 Dec 2015	Vehicle output 2015	Vehicle capacity 2016
<b>SEE Nations</b>							
<b>Romania</b>							
Renault-Dacia Renault	France	Colibasi, Mioveni (renamed Pitesti Plant)	Feb-1967	Aug-1968 (Dacia)	11,108	339,204	450,000
			Jul-1999	Sep-1999 (Dacia)			
PSA-Oltcit Daewoo/Olicit	France	Craiova	Jul-1976	Oct-1982 (olicit)			
	Korea		Nov-1994	Mar-1995 (Daewoo)			
Ford <sup>a</sup>	USA		Sep-2007	Sep-2009 (Ford LCV) Jun-2012 (cars)	4,002	47,967	300,000
<b>Serbia</b>							
Zastava-Fiat FCA <sup>b</sup>	Italy	Kragujevac	Aug-1954	Nov-1954 (Zastava)	3,100	91,895	200,000
			Apr-2008	Mar-2009 (Fiat)			
<b>Slovenia</b>							
Auto Union-IMV <sup>c</sup> British Motors Renault-IMV Renault Revoz	Germany	Novo Mesto	Nov-1954	1955 (DKW LCV)			
			1962	1962 (DKW cars)			
	1967		1968 (Austin)				
	Jan-1973		1973 (Renault)				
	France		Jun-1988	Dec-1989 (Renault)	3,178	129,405	210,000

Sources: Compiled and adapted by the author from OICA (1999–2016); Renault (2006–2016); Ford (2008), Zastava (2008); Dacia (2016); FCA (2016); Revoz (2016a, 2016b).

<sup>a</sup> Employment includes engine plant opened in 2012.

<sup>b</sup> Factory opened in 1853; its first vehicles were assembled (400 Chevrolet military trucks) in 1939, followed in 1953 by 162 Willy-Overland Jeeps.

<sup>c</sup> Joint venture with Agroservis until 1959, when company renamed IMV.

In 1978, Renault's licensing agreement with Dacia expired, and Dacia went forward on its own. From that point on until 1994, with the exception of a small allotment of Dacia 2000 executive cars (Renault 20), the Mioveni Plant solely built the 1300-series. This briefly included a *Break* (wagon) in 1973, a pickup in 1975, and a coupe in 1981, enabling output to rise to 90,000 in 1986 and 1987. Finally, eight years in the planning, the Dacia 500 Lastun was launched in 1988. The microcar had been prompted by a March 1980 national proclamation calling for the creation of a Romanian 'people's car'. The Lastun, however, which designed through a joint venture between the Soviet vehicle makers Lada and Kamaz, was not assembled by UAP Mioveni. Rather, it was built by the state-run Tehnometal at its facility in Timisoara, Timis County, located 444 km (276 miles) northwest of Colibasi. The little 'martin' lasted only to 1991, with just 6,532 assembled.

Including the Lastun, Dacia produced a Socialist Era peak of 121,400 cars in 1988. As shown in [Table 8.2](#), this declined to approximately 100,000 cars in 1989. Dacia easily could have sold many more cars, as similar with other CMEA nations, it took years for domestic customers to receive their orders, even though the vehicles contained shoddy workmanship and were unreliable. The problem again was the fact that more than half of what Mioveni produced were shipped out of the country. Exports primarily went to Eastern Europe, but between 1982 and 1983 some 1300 models were shipped to Britain and sold as the Dacia Denem. A rebadged ARO 10 SUV also was marketed there as the Dacia Duster. Both soon disappeared because of their poor quality.<sup>3</sup>

## Renault Wins Post-Socialist Dacia

With the Fall of Socialism in 1989, Romania was thrust into political and economic turmoil. Compounding matters was the fact that Romania had the lowest its per capita income among CMEA nations. Moreover, although receiving minor updates and editions in 1979

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<sup>3</sup>Ward's (1958–2014, 2014); Autoevolution (2016).

Table 8.2 Car production in the SEE Auto Zone, 1989–2015

	2015	2010	2005	2001	1989	Change 2001–2015	% Change 2001–2015
<b>SEE Auto Zone Total<sup>a</sup></b>	<b>608,471</b>	<b>549,631</b>	<b>365,528</b>	<b>180,524</b>	<b>386,950</b>	<b>427,947</b>	<b>237.06%</b>
<b>Romania<sup>b</sup></b>	<b>387,171</b>	<b>323,587</b>	<b>174,598</b>	<b>56,774</b>	<b>160,000</b>	<b>330,397</b>	<b>581.95%</b>
Ford/Daewoo-Oltcit Craiova	47,967	0	22,319	12,520	60,000	35,447	283.12%
Renault-Dacia Pitesti	339,204	323,587	152,150	43,253	100,000	295,951	684.23%
<b>Serbia-Slovenia</b>	<b>211,805</b>	<b>226,044</b>	<b>190,930</b>	<b>123,750</b>	<b>226,950</b>	<b>97,550</b>	<b>78.83%</b>
Fiat/Zastava Kragujevac, Serbia	91,185	14,551	12,979	7,668	180,950	84,227	1,098.42%
Revoz Novo Mesto, Slovenia	129,405	211,493	177,951	116,082	46,000	13,323	11.48%

Source: Adapted by author from Ward's (1958–2014, 2014); OICA (1999–2016); Renault (2006–2016); Revoz (2016a, 2016b).

<sup>a</sup> 1989 figures rounded by the source.

<sup>b</sup> Includes ARO-brand SUV for 2001–2005.

x Inactive.

(Dacia 1310-sedan), 1987 (1320 hatchback) and in 1991 (the 1325 Liberta liftback), the Dacia 1300-series was long past its time. One of the main problems was that Dacia was utilizing the old designs and platform from the same R12 models built when its licensing agreement with Renault ended in 1978. Secondly, Dacia was gravely short of funds to support a new model, and the nation's economic distress made it difficult for it even to acquire quality components for its vehicles. Unable to compete with the growing choices in a more market-oriented economy, production by Automobiles Dacia, as it was now known, declined to 62,940 in 1990 and then to 60,000 in 1991.<sup>4</sup>

Realizing that the Dacia could not continue on its own, the Romanian Government negotiated with several foreign automakers in hopes of forging a joint venture arrangement to operate its renamed Pitesti Motor Works in Mioveni. Talks with Renault, PSA, Fiat, and others failed, however, when none of the foreign suitors was willing to take on Pitesti's 27,000-plus workforce, nor preserve the Dacia brand name. Output in Mioveni surpassed 80,000 between 1992 and 1994, but still fell far short of the plant's planned capacity of 150,000 cars per year.<sup>5</sup>

One positive sign occurred in 1995, when the Pitesti Motor Works introduced the sporty Dacia Nova fastback. Ten years in development, the successor to the Dacia 1310 represented the first car designed and mass produced solely by the Romanian automaker. Despite its serious flaws, the Nova helped push total vehicle output in Mioveni past 100,000 in 1997, with three-quarters of these cars sold domestically. Nonetheless, Dacia was still teetering on the brink of bankruptcy and desperate for a foreign automaker to save it. In October 1997, the automaker signed an agreement with Hyundai to assemble Hyundai Accent at the Pitesti Works in 1997. Production was to begin in 1999 and ramp up to 50,000 units per year within a few years. It also entered into talks with PSA to possibly build cars in Romania. With the Hyundai deal falling apart in early-1998 due to the impacts of the

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<sup>4</sup> Georgano (2000); Thompson (2011); Agerpres (2014); Autoevolution (2016).

<sup>5</sup> Ward's (1958–2014, 2014); Thompson (2011).

1997 Asian Fiscal Crisis, neither it nor PSA ever produced a car at Pitesti. Nevertheless, bigger things awaited the Dacia Plant.<sup>6</sup>

With Hyundai out of the picture, in August 1998 the Romanian Government began soliciting participants for a December 8, 1998 privatization tender for a 51% stake in its state-run carmaker. Although others supposedly expressed interest, Renault was the only vehicle maker that ultimately entered a bid for Dacia. Renault's Chairman Louis Schweitzer viewed the acquisition of Dacia as an inexpensive method in which to secure an economy car brand, reduce production costs, and raise sales in emerging markets. The French automaker also was negotiating an alliance with Nissan of Japan, as it tried to build the capacity to achieve its target goal of roughly doubling sales to four million by 2010. According to Schweitzer, one major stipulation needed to be met in order for the deal for Dacia to be completed: Guarantees of significant labor cuts and efficiency gains at the 27,560-worker Pitesti factory.<sup>7</sup>

Negotiations began in January 1999, but the situation grew more complicated the following month when the IMF remained non-committal on whether it would grant Romania emergency loans to prevent a default on its foreign debt. The IMF hesitated because it was unhappy with the national government's failure to carry out its promised market-oriented reforms. On the other side, the bureaucracy feared the consequences of the IMF's austerity measures, which they estimated would eliminate 140,000 jobs over a five-year period.<sup>8</sup>

Things seemed more settled on March 11, 1999, when Renault signed a memorandum of understanding for 51% of Dacia; Renault consummated its alliance with Nissan on March 27, 1999. The Renault-Dacia tie-up was expected to be closed on April 13, with reports suggesting that Renault was to pay \$30 million for the stake and commit to invest significantly more to upgrade the Pitesti Works and output to international quality and competition standards. Nonetheless, talks soon stalled over the extent of the tax breaks

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<sup>6</sup> Ward's (1958–2014); Bloomberg (1995); CEAR (1998); Thompson (2011).

<sup>7</sup> Simonian (1998, 1999); Egresi (2008); Thompson (2011); Agerpres (2014).

<sup>8</sup> Egresi (2008); Thompson (2011).

Romania was willing to provide the French conglomerate, itself still 44% owned by the French Government.<sup>9</sup>

Finally, after 27 years adrift, Dacia and Renault were reunited on July 2, 1999, when the two sides signed their joint ownership agreement. The accord became official on September 29, 1999, with Renault's total investment in Dacia tagged at \$270 million. Renault was to pay \$50 million for its controlling 51% share, or about one-third what Romania was originally seeking. It was then to commit \$220 million toward factory upgrades over five years and thereby, raise annual car output to 200,000 by 2010. It was expected that approximately 80,000 of these cars were to be exported to emerging markets. In exchange for the injection of funds, Renault received a five-year tax abatement on domestic profits, import tariffs, capital goods sourced locally, and any value-added taxes on imported components and plant equipment.<sup>10</sup>

In 2000, the first car in the new collaboration emerged from the Pitesti assembly line: the Dacia SuperNova supermini. A total of 42,603 cars were built in Mioveni in that year followed by 43,253 in 2001 (See [Table 8.2](#)). The main difference between the SuperNova and its predecessor the Nova was that the new release came equipped with the same engine and transmission and the Renault Clio. No matter, the unreliable SuperNova did not last long, as it was replaced by the restyled Solenza in April 2003. The Solenza, also being built at ZAZ in Russia, was essentially a rebadged Renault Clio.<sup>11</sup>

On July 24, 2004, the last of 1.98 million Dacia 1300-series cars was produced. Galvanized by the launch of its successor the Dacia Logan on June 2, 2004, along with the restoration of a third work-shift, output at the 12,828-worker Pitesti Works expanded to a plant-record 172,170 in 2005. This included 152,150 cars and 19,871 panel vans, with the former consisting of 146,456 Dacia Logan and 5,695 Dacia Solenza (See [Table 8.2](#)). The Solenza was discontinued in March 2005.<sup>12</sup>

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<sup>9</sup> Owen (1999); Egresi (2008); Thompson (2011).

<sup>10</sup> Egresi (2008); Thompson (2011); Agerpres (2014).

<sup>11</sup> Ward's (1958–2014); Thompson (2011); Agerpres (2014).

<sup>12</sup> Renault (2006–2016); Thompson (2011); Agerpres (2014); Autoevolution (2016).



Renault reported its investments to modernize and the Pitesti factory, and to revamp its supplier and dealer networks, at \$624 million in 2005. By that time, it also had gradually increased its equity stake in Dacia to 99.43%. This continued to bear fruit in 2007, when Pitesti vehicle output steamed ahead to 234,103. The complex's two-year old CKD Exports Center also shipped another 96,000 KD kits for finally assembly to Russia, Africa, and the Middle East.<sup>13</sup>

As shown in [Table 8.3](#), Vehicle production expanded further to 340,937 in 2010, including 323,237 passenger cars. This record was then again surpassed in 2013, when 343,213 vehicles, all cars, were produced. This included three recently launched models: the second-generations Dacia Logan and Sandero supermini, both launched on November 13, 2012; and the Logan MCV wagon, introduced on May 29, 2013. Output then flattened through 2015, when 339,204 cars were built at the now 11,108-worker, 350,000-capacity Pitesti Works. Nonetheless, despite the small decline, annual car output at Dacia Pitesti in 2015 still represented an increase of 295,951 or 684.25% as compared with 2001 (See [Tables 8.1–8.2](#)). This total was up by 239,204 or 239.20% from 1989. More specifically, in 2015 Dacia Pitesti produced: 170,328 Duster SUVs, introduced on November 17, 2009; 70,231 Logan; 58,030 Sandero; and 40,614 Logan MCVs. The complex also manufactured a record 435,885 engines along with 514,256 gear-boxes in that year (See [Table 8.3](#)).<sup>14</sup>

As of 2016, Renault had invested more than \$2.5 billion at its 62-hectare (153-acre) factory situated on its 290-hectare (716-acre) site off National Route 73D in Mioveni. In return, Dacia has become Europe's fastest growing car brand, a highly profitable by building economy frills models that have appealed to both budget-weary Western Europeans and emerging market customers. Whereas approximately 75% of Dacia cars built during the 1990s were sold domestically, 90.5% of 2015 production was exported out of Romania to 34 countries on four continents.<sup>15</sup>

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<sup>13</sup> Renault (2006–2016); Egresi (2008); Thompson (2011).

<sup>14</sup> Renault (2006–2016); Dacia (2008–2016, 2016); Thompson (2011); Foy (2013).

<sup>15</sup> Dacia (2008–2016, 2016); Romania (2016).

Table 8.3 SEE Auto Zone car production by Plant, 2009–2015

	2015	2014	2013	2012	2011	2010	2009
<b>Romania</b>							
Dacia Pitesti	339,204	338,879	343,213	296,645	309,984	323,237	279,301
Dacia Duster	170,328	174,269	119,814	132,999	168,554	86,130	—
Dacia Logan I/II	70,231	77,451	91,811	57,921	41,729	50,938	50,538
Dacia Logan MCV	40,615	42,631	17,761	34,947	39,147	44,508	80,251
Dacia Sandero I/II	58,030	44,528	113,827	70,778	60,554	141,661	148,512
Ford Craiova	47,967	52,829	68,339	30,591	LCV only	LCV	—
Ford B-Max	47,967	52,829	68,339	30,591	—	—	—
<b>Serbia</b>							
FCA Kragujevac	91,985	101,576	113,487	23,336	10,227	14,551	16,337
Fiat 500L	91,185	101,576	113,487	23,336	—	—	—
Fiat Punto Classic	—	—	—	—	10,227	14,551	16,337
<b>Slovenia</b>							
Revoz Novo Mesto	129,405	118,578	93,733	130,947	174,127	211,493	212,680
Renault Clio II	4,550	7,711	9,858	32,213	26,773	47,485	30,296
Renault Twingo II/III	—	98,781	83,630	97,813	141,739	157,666	182,384
Renault Wind	83,376	—	245	921	5,615	6,342	—
Smart Forfour	41,479	12,086	—	—	—	—	—

Sources: Adapted by Author from OICA (1999–2016); Ward's (2014); Renault (2006–2016); Revoz (2016a, 2016b).

Including KD kits assembled elsewhere, a total of 533,146 Dacia cars and LCV were produced and 511,510 sold worldwide in 2015. Therefore, it could be reasonably argued that Dacia's expanding profitability, along with Renault's alliance with Nissan, has also helped save the French automaker from being absorbed by a larger Western competitor. Similarly, Renault's investments have more than just saved Dacia. It also has numerous attracted numerous French components manufacturers to Romania, such as Elba, Euro Auto Plastic (now part of Faurecia), Michelin, and Valeo, as well as scores more from Europe, North America, and Asia. This has greatly impacted the SEE nation's economy, as Romania's 600-plus automotive suppliers generated \$15.3 billion in revenue in 2014. Almost 69% of this 2014 value was garnered from exports, meaning that their export sales were more than twice that of total supplier revenues of \$6.5 billion in 2009.<sup>16</sup>

Finally, despite management complaints that wages have been rising too fast and the shift of some Logan MCV production from Pitesti to Renault's new Moroccan Plant, at \$5.90 per hour, Romanian labor costs have remained lower than all other former CMEA nations except Bulgaria.<sup>17</sup> These facts suggest a bright near-term future for Dacia's Pitesti Works. The same applies for the Romanian auto industry, in general, which now hosts the Ford Craiova Plant and likely another foreign car factory by 2020.

## Ford Craiova and Romania

Ford Motor Company of America first came to Romania in 1931, when it established a sales office in Bucharest. In 1935, Ford of England received permission to develop an assembly facility in the country. It then purchased land in the Floreasca district of Bucharest and constructed Ford Werke Romania. There, in May 1936, it launched Eastern Europe's first car production line. The American automaker

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<sup>16</sup> Dacia (2008–2016); Romania (2016).

<sup>17</sup> Romania (2016).

assembled about 2,500 cars and trucks annually until the plant was overrun by the Nazis in 1939. After WW-II, in November 1947, the Romanian Government nationalized the Bucharest factory. Ford would not build another light vehicle in Romania until September 2009, when the first Ford Transit Connect LCV was produced at Ford Romania's Craiova Assembly Plant.<sup>18</sup>

Ford's present factory in southwestern Romania was originally established in July 1976, when PSA's Citroen division outmaneuvered VW for the rights to build a 36/64 joint venture small car plant with the Romanian Government in Craiova, Doji County. As part of the deal, PSA was to invest \$85-million and assemble a replacement for its successful Citroen Ami 8 supermini. Approximately 40% of the car's components were scheduled to be domestically sourced. The new company was officially established in December 1977 as Olcit SA, the name a portmanteaux combining syllables from Romania's ancient province, OLTen and CITroen.<sup>19</sup>

Construction of modern 130,000-capacity assembly and 158,000-capacity engine halls were completed in 1981, with production of Olcit Club superminis finally commencing in Craiova in October 1982. A total of 5,400 cars were built in 1983, jumping to 37,000 in 1984. By 1985, the plant also was stamping some of its Olcit Club models as Citroen Axel, for sale in Western Europe. Unfortunately, despite factory's modern equipment, the reliability and quality of the cars built at the plant were not up to Western standards. As a result, neither the Club nor the Axel sold well and output was reduced to just 16,463 in and 15,458 in 1987. Production also was greatly inhibited by the company's lack of hard currency, which made it difficult to purchase components from Citroen or elsewhere.<sup>20</sup>

Following the fall of Socialism in 1989, the Craiova factory and its cars were rebranded as Oltena. During that year, output was reported at a record 60,000 vehicles, or double the 29,400 produced in 1988

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<sup>18</sup> Georgano (2000); Thompson (2011).

<sup>19</sup> Georgano (2000); Egresi (2008); Thompson (2011).

<sup>20</sup> Ward's (1958–2014); Georgano (2000); Ford (2008); Thompson (2011).

(See [Table 8.2](#)). This figure seemed hard to believe considering the political and economic chaos confronting Romania during this period. The four two years were further evidence of this, when output of Oltena were reported as just 21,671 in 1990, 15,000 in 1991, and then only 5,400 in 1993. This drop occurred despite the Romanian Government's implementation of a \$100 duty on imported new cars, a substantial sum for a country where they average working was making only around \$100 per month. Instead of protecting its ailing automakers, the tariff served to trigger a flood of used cars into the country.<sup>21</sup>

In the meantime, PSA had had enough, and in 1990 informed the government that it was withdrawing and selling it back its 36% stake in the joint venture. This occurred in December 1991, upon which the Oltena plant was promptly renamed Automobiles Craiova. The factory remained independent until January 10, 1994, when the Daewoo Group of Korea announced its intentions to acquire a 51% stake in the Romanian automaker for \$156-million. Output was expected to launch in autumn 1994, with Daewoo initially utilizing only a portion of the Craiova Plant. The Korean conglomerate was then to raise its commitment to more than \$900 million by modernizing and expanding the plant in order to produce 200,000 cars annually by 1998. Via the Black Sea Port of Mangalia and the Danube River Port of Oltenita, more than half of the cars were to be exported to Eastern and Western Europe, respectively, with the rest sold to what was projected to be a rapid growing domestic market.<sup>22</sup>

On September 7, 1994, however, the new venture was in flux, when the Romania Government passed a 20% customs tax and 18% value added tax on imported new cars to protect its nearly bankrupt domestic producers. The move prompted chaos and a wave of protests at country's western border controls, when hordes of Romanians tried to return home with second-hand cars that had purchased in Western Europe but could not pay the tariffs on. Daewoo officials also objected to the plan, and broke off negotiations for the 4,000-worker Craiova factory

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<sup>21</sup> Ward's (1958–2014); Georgano (2000); Ford (2008); Thompson (2011).

<sup>22</sup> Reuters (1994); Lee (2001); Egresi (2008); Georgano (2000); Thompson (2011).

when the Government refused to accept their request to import 20,000 South Korean-built cars into the country duty-free. Cooler heads prevailed and an agreement was signed creating Rodae Automobile SA (Romanian DAEwo) on November 16, 1994. In exchange for its pledge to modernize the factory, Daewoo received a five-year corporate tax exemption and a seven-year waiver on duties on imports of its own vehicles.<sup>23</sup>

Over the next few years, Daewoo injected more than \$870 million to refurbish and upgrade the factory in order to build cars that met Western quality standards. Production of Oltena brand models in Craiova ended in early-1996 and was succeeded by the launch of KD kits of Daewoo Cielo on March 11, 1996. The compact was derived from GM's Opel Kadett E and stamped for Europe as Daewoo Nexia (See [Chapter 3](#)). The Nexia was followed in December 1996 by the Daewoo Espero. Meanwhile, in October 1996, Rodae Automobile was reincorporated as Daewoo Automobile Romania.<sup>24</sup>

In December 1997, Daewoo brought a new powertrain plant online in Craiova. In contrast, the country's political and economic instability was constraining output, as it provoked a major decline in the value of the Romanian Lei currency. This made the import of necessary automotive components to build cars in Craiova much more expensive. On top of that, Daewoo was displeased that government tax breaks provided only to Dacia had made their car much less cost-competitiveness in the domestic market. In reaction to these changing conditions, Daewoo decided expand the model line at the factory, but also to scaled back its production plans, resulting in only 16,386 cars being produced in 1998 and 17,593 in 1999.<sup>25</sup>

In the meantime, as described in [Chapter 3](#), the 1997 Asian Fiscal Crisis had pushed the 12-company Daewoo Group on brink of bankruptcy, with \$89 billion in collective debts. Suffering massive red ink of its own, due to its ill-timed, over-zealous expansion plans in emerging

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<sup>23</sup> Rodina (1994); Daewoo (2000); Thompson (2011).

<sup>24</sup> Georgano (2000); Daewoo (2000); Thompson (2011).

<sup>25</sup> Ward's (1958–2014); Green (1999); Daewoo (2000); Thompson (2011); Jacobs (2016).

Europe, Africa, and Asia, Daewoo Motors was placed in receivership. It was then auctioned off, with Ford initially gaining the exclusive rights to negotiate and purchase Daewoo Motors in June 2000. The American automaker eventually walked away from its offer in September 2000, leaving the door opened for GM to scoop up the embattled Korean automaker.

Negotiations with Daewoo's creditor, the government, and labor union representatives dragged on until September 17, 2001, when an agreement was finally reached. As part of the deal, which closed on April 10, 2002, GM seized control of Daewoo's Korean car factories, but showed no interest in its facilities in Poland, Ukraine, or Uzbekistan (See [Chapter 3](#)). The same applied to Daewoo Craiova, which employed 4,100 and listed its annual production capacity as 200,000 cars, 300,000 engines, and 200,000 gearboxes. GM allowed the facilities to continue to build Daewoo models, but Craiova and the other plants were prohibited from selling cars in any countries where the new GM Daewoo was selling its models.<sup>26</sup>

Uncertain about its future, output at the renamed Automobile Craiova shrunk to 12,520 in 2001, before gradually rebounding to 26,656 in 2004 and 22,319 in 2005 (See [Table 8.2](#)). Interested in expanding capacity quickly to meet growing demand for Dacia, in November 2005, Renault and its partner Nissan expressed interest in buying the then 3,900-worker Craiova factory. With the licenses to build Daewoo Cielo expiring in 2005 and the plant's production effectively held hostage by GM, the Romanian Government decided it was time to unload its troubled carmaker.<sup>27</sup>

In February 2006, Romania's Office of Privatization began negotiating with the necessary parties in Korea to re-acquire Daewoo's 51% share in the Craiova complex. An agreement with Daewoo's creditors was reached in June, then approved by the Korean courts, and signed on August 30, 2006. Consummated in early-October, the Government paid \$60 million in total, including \$50 million for Daewoo's stake in

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<sup>26</sup>Thompson (2011); Jacobs (2016).

<sup>27</sup>Ward's (1958–2014); Mackintosh (2005); Egresi (2008); Thompson (2011).

the automaker and \$10 million to restructure its related debts. This then enabled the State to negotiate with foreign investors interested in taking over the factory. The acquisition process also revealed for the first time that Daewoo Romania had received nearly \$1 billion in State tax and other incentives, or nearly equivalent to the \$1.1 billion it had invested in Romania.<sup>28</sup>

In 2006, the renamed Automobile Craiova produced 24,656 cars, 140,000 engines, and 180,000 transmissions. By the end of that year, the process to liquidate the complex was underway in order to meet the privatization authority's stated goal of June 2007. In January 2007, it was reported that Chery of China, Ford, GM, Renault, and Tata Motors had expressed interest in the operations, with the Chery and the two American automakers submitting letters of intent to buy the company in January 2007. Two months later, the government closed the bidding to Ford and GM. Only interested in securing the supply of 60,000–70,000 engines it annually purchased from Craiova, GM ultimately withdrew from the process, leaving Ford as the only participant when the bidding closed on July 5, 2007.<sup>29</sup>

On September 12, 2007, Ford of Europe announced that it had signed an agreement with the government to pay \$78 million for a 72.4% stake in Automobile Craiova (See [Table 8.1](#)). In the accord, Ford acquired the Craiova factory complex, an apartment block in the city, and land at the Port of Constanta, located 445 km (277 miles) east on the Black Sea. Ford also committed to invest \$932 million over the next four years to boost annual car and engine capacity to 300,000. It also pledged to directly employ 3,100 workers, growing to as many as 7,000 in the future, and to purchase \$1.38 billion in domestic supplies to build its vehicles.<sup>30</sup>

The final transaction was delayed by an EC Commission's Competition Committee inquiry related to the state aid package, Ford's employment and production guarantees, and other promises

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<sup>28</sup> Istrate (2006); *Revista Business Magazine* (2006); Egresi (2008); Pavlinek (2015).

<sup>29</sup> Ward's (1958–2014); Istrate (2006); Datta (2007); Condon (2007).

<sup>30</sup> Frink (2007, 2008); Reed (2007); Ford (2008); *Financial Times* (2009).



safeguarding Ford from Daewoo's prior debts. In February 2008, the EC ruled that Ford's offer was inadequate, and declared that it should pay an additional \$40 million to the Romanian Government for Automobile Craiova. The final transaction was then completed on March 21, 2008 and the company's fixed assets were then transferred to the newly established Ford Romania. The following month, the EC approved \$225 million in State aid for the project and related draft legislation that stipulated that Ford must annually expend \$237 million in the car factory and \$7 million in the engine plant through 2012.<sup>31</sup>

Automobile Craiova produced 18,825 Daewoo in 2007 and its final 2,498 in 2008, when car output was suspended. In the meantime, Ford Europe began recruiting suppliers, many of which were already in Romania serving Dacia Pitesti. This included the giant American components manufacturers, Delphi, Dura Automotive, Johnson Controls, Lear, Tenneco, and TRW Automotive. In October 2008, Ford proclaimed that it planned to begin output of Ford Transit Connect LCV in Craiova in mid-2009. The production lineup was then to be expanded in mid-2010, by the addition of its new successor to the Fusion minivan, the Ford B-Max.<sup>32</sup>

Between March 21, 2008 and April 13, 2009, Ford paid another \$26 million to raise its stake in Automobile Craiova to 95.63%. Nonetheless, output of LCV was delayed at Ford Romania until September 8, 2009, due to the major losses suffered by Ford Europe during the 2009 Great Recession and its parent Ford Motor Company Chapter 11 bankruptcy filing on June 1, 2009. When it did start, only 9,558 Transit Connect were produced in 2010 and 7,547 in 2011. LCV output was then discontinued to re-tool for the B-Max, of which serial production commenced in Craiova on June 24, 2012. The MPV was preceded by output of Ford EcoBoost engines, which began at the complex's new \$235 million engine hall on May 10, 2012. These commitments enlarged the automaker's investment in Ford Romania to \$875 million in 2012.<sup>33</sup>

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<sup>31</sup> Ford (2008).

<sup>32</sup> Ward's (1958–2014); Ford (2008); Ciferri (2008); Pavlinek (2015).

<sup>33</sup> Ward's (1958–2014); OICA (1999–2016); Ford (2011–2016); Pavlinek (2015).

A total 30,591 of the B-Max were assembled in 2012, before rising to a peak of 68,339 in 2013, accompanied by 250,000 engines. Falling European demand then prompted a reduction in output of B-Max to 47,967 in 2015, far below annual capacity of 300,000. No other vehicles were assembled during these three years and 100% of this output was exported out of the country. Production at the 300,000-capacity engine plant also decline to and 155,000 motors in 2014 and further in 2015, when Ford announced a combined 500 planned layoffs at two facilities. As a result, the Ford Craiova complex employed 4,002 people as of December 31, 2015, including 3,600 at the car plant and 402 at the engine factory (See [Tables 8.1–8.3](#)).<sup>34</sup>

Just as things seemed bleakest, on March 22, 2016, Ford announced that it will inject a fresh \$225 million in Craiova in order to prepare its operations to launch assembly of Ford EcoSport CUV in late-2017. The retooling will raise the automaker's investment at the 109-hectare (269-acre) complex on National Route 6 to more than \$1.13 billion.<sup>35</sup> This is a good sign for the entire Route 6 corridor, an important 639 km (400 miles) but only partially divided roadway that originates in Bucharest, joins E70 in Craiova, and then connects to Timisoara, Belgrade, Zagreb, Ljubljana, Turin, and points west.

Overall, Romania's two foreign car assembly plants produced 387,171 passenger cars in 2015 and employed a 15,108 people on December 31, 2015. A total of 91.8% of these cars were exported. The nation's 600-plus automotive components suppliers, including more than 100 foreign manufacturers, engaged 198,000 more workers.<sup>36</sup> While Romania recently lost in its bid to land Mercedes-Benz and Jaguar Land Rover facilities, its combination of low wages and high level of industrial productivity suggest its near-term prospects for landing a third car plant were very high.<sup>37</sup>

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<sup>34</sup> OICA (1999–2016); Ford (2011–2016); *Romanian Journal* (2015–2016).

<sup>35</sup> OICA (1999–2016); Ford (2011–2016); *Romanian Journal* (2015–2016).

<sup>36</sup> APIA (2016).

<sup>37</sup> Ilie (2016).

# FCA Kragujevac in Serbia

## Fiat-Zastava and Yugo

The state-owned *Zavodi Crveni Zastava* (Zastava) was established on August 26, 1953, when the Yugoslav Government renamed an existing agricultural machinery and small arms factory in Kragujevac, and its plant's workers voted to produce automobiles. The complex had originally opened in 1853 and prior to WW-II in 1939, had produced 400 Chevrolet military trucks. Another 162 licensed Willys-Overland Jeeps were assembled after the war in 1953.<sup>38</sup>

The government and company management then quickly moved forward, spending the next year flirting with Alfa Romeo, Austin, Renault, and Rover before signing an agreement with Fiat of Italy on August 12, 1954. By November 1954, the first Fiat 1400 had rolled off the Zastava assembly line and was marketed domestically as the Zastava 1400 BJ. The sedan was followed in 1955 by the Zastava AR-51 mini 4X4 Jeep (Fiat Campagnola) and the Fiat 1100T military van. The real breakthrough came on October 18, 1955, when output commenced of the popular Fiat 600 mini, badged locally as the Zastava 600 (See [Chapter 3](#)). A total of 1,044 vehicles were built in 1955, of which, 760 were passenger cars, including 735 Zastava 1400 and 25 Zastava 600.

Production in Kragujevac rose to 3,596 in 1958 and 13,719 in 1960, when serial production of the 600 commenced. In 1962, the 600 was upgraded to Fiat's 767 cc engine and renamed the Zastava 750 (Fiat 770 elsewhere). Output then steadily grew to 50,000, with the 750 gaining a new nickname, the 'Fica,' after a character in a newspaper's comic strip. The Fica also became Yugoslavia's people's car, credited with leading the nation's motorization drive during the Socialist Era. Beginning in 1961, the Fica was complemented by the Zastava 1300 and 1500 sports coupe.

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<sup>38</sup> Fiat-Zastava and Yugo was based primarily upon: Ward's (1958–2014); Georgano (2000); Zastava (2008); Thompson (2011); also see (Pavlinek (2002); Turnock (2004); other supplemental citations are provided where appropriate.

Together dubbed 'Jugoslovenski Mercedes,' production of these cars continued in Kragujevac through December 1979, a full 10 years after Fiat discontinued and replaced its own 1300/1500-line with Fiat 124 and 125.

A major milestone in the Fiat-Zastava relationship came in 1968, when the Italian automaker pledged to invest \$10 million to expand output in Kragujevac from 52,000 in 1967 to 85,000 and then to 130,000 by 1973. It also committed to provide technological assistance to Zastava to improve the products and production processes. The success of the Zastava 1300/1500 also helped forge ties between the Yugoslav automaker and FSO Zeran in Warsaw. Poland had become the first market for Zastava exports in 1965, when 6,000 cars were shipped to the CE Nation. This led to a 1969 subcontracting deal that saw Zastava Kragujevac assemble KD kits of the Polski-Fiat 125p. This was not difficult, as the 125p, which was sold in Yugoslavia as the Zastava 125pz, shared many components with the 1300/1500 and (See [Chapter 3](#)).

On May 16, 1971, the fwd, front-engine Zastava 128 small sedan was introduced at Kragujevac. It was joined on October 15, 1971 by the Zastava 101, a four-door hatchback version of the Fiat 128 designed in Turin but never sold in Italy. Along with the Fica, the 101/128-series helped double factory production from 111,725 in 1973 to 243,639 in 1978, and then to nearly 250,000 in 1979. In the latter year, a record 88,918 of the 101/128 line were built in Yugoslavia, including revved-up 'Special' edition aimed at customers of the VW Golf GTI 'hot hatch.'

By the end of 1970s, Zastava was shipping cars to 23 countries in Western Europe and North Africa (sold as Zastava Yugo). It also was out-producing most other Socialist nations. As a result, despite the export-orientation, domestic customers had to wait only about two months for their car orders, a short queue compared with the year or longer suffered by buyers in CE nations. Of course, the Soviets had little control over Yugoslavia's production schedule or sales market. So in addition to Zastava, local buyers also could purchase Renault and VW Golf produced domestically (in Slovenia and Bosnia), as well as Soviet-built Lada, Czech Skoda, and Polish Polski Fiat.

In 1980, the Fico was fitted with a larger 843 cc Fiat engine and rechristened the Zastava 850. This iteration was built until November 18, 1985, when the last of 923,487 Fico left the Kragujevac assembly line. By that time the plant's focus had already shifted to a new mini, the Zastava 102. Based upon the designs of the Fiat 144 that was never produced, but 11-cm (4.3-inch) longer, and sharing components with the Fiat 127, the first Zastava 102 prototype was tested on October 2, 1978. By the time serial production launched in October 1980, however, the 45-hp supermini had received a new moniker: the Zastava Yugo 45 at home and the Yugo 45 in foreign markets.

As part of the licensing agreement with Fiat, exports of the car to Europe were delayed until 1983, in order to allow Fiat's own updated 127 to gain a foothold on the continent. This barely affected sales, however, as the Yugo was praised by pundits for its ride and handling and quickly put the Zastava on the map in Western Europe. This push was aided by Zastava's corporate sponsorship of the 1984 Winter Olympics in Sarajevo.

The Yugo also was a smash hit in America, where dealer sales of the unusually affordable (\$3,990) 55-hp Yugo GV ('Great Value') commenced in September 1985 and rapidly rose to peak of record 48,813 in 1987. The factory's workers were so overjoyed by the first shipment to the U.S. that they supposedly cried when the cars left the factory for America in the summer of 1985. After falling below 200,000 in the early-1980s, output at Zastava Kragujevac rebounded to 210,330 in 1987. To further capitalize on the success of the Yugo in America, Zastava also began stamping its cars with 'Ys' for Yugo instead of 'Zs' for its corporate name in 1987. It then rebranded new editions of its models with names rather than numbers. For example, to better differentiate the Zastava 101 small car series from the Yugo 45/55/65 (GV) line in Europe, the 101 was renamed the Yugo Skala in 1988; the four-door hatchback edition of the 101 already had been introduced in 1984 as the Zastava Skala. Similarly, in May 1991, the Yugo 45 was rebranded the Zastava Koral at home and the one sold in Britain redubbed the Yugo Tempo.<sup>39</sup>

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<sup>39</sup> Moberg (1988).

In addition to the name changes, the Yugoslav automaker injected a fresh \$150 million in its Kragujevac Plant in 1987, in order to launch output of the company's largest car ever: the Zastava Florida compact hatchback. Prototypes for the car named as a tribute to the American state and derived from the Giugiaro-designed Fiat Tipo, began on February 19, 1987. Serial production of the Florida commenced on October 2, 1988, with exports to Britain as the Yugo Sana began in January 1990. Shipments to the U.S. of an affordable \$8,000 sedan were set for later that year. At the time, the Zastava Group of factories had grown to become Yugoslavia's largest firm, employing 53,300 people directly and creating thousands more jobs at its 280 suppliers and related companies.

Also in 1988, a few licensed Fiat Uno superminis were assembled in Kragujevac in 1988, with Fiat promising more in the future. Local banks also were excited about the Yugo's prospects, offering loans to raise annual capacity at the plant to 350,000 by 1990. In the meantime, a new and improved Yugo GV Plus line, including a convertible, were now being shipped to America, injecting new spring into the company's step.

Unfortunately, due to complaints from buyers about frequent maintenance issues and the bankruptcy of Zastava's U.S. import agent in 1988, American sales sank to 10,576 in 1989 and then just 6,359 GV in 1990, shelving exports of the Florida. By the end of 1990, however, Zastava had more pressing concerns to worry about, as its home county, along with those in the former Eastern Bloc, were suffering the after-shocks brought on by the Fall of Socialism.

## **Zastava and the Breakup of Yugoslavia**

Again, this situation was further complicated by the strings attached by the IMF to its \$1 billion subsidy package intended to aid Yugoslavia through its transition to capitalism. Although the IMF stipulations were aimed at ridding its state-run enterprises of its production inefficiencies and debt, the consequences of the ensuing rapid privatization and austerity measures implemented in 1989 and 1990 were dire for

Yugoslavia. This included massive layoffs to the tune of nearly one-quarter of the country's 2.7 million workforce. In response, Zastava's annual passenger cars output declined to 180,000 in 1989 and then to 153,017 in 1990 (See [Table 8.2](#)).<sup>40</sup>

As if things were not unsettled enough, without the safety net provided to these workers by State Socialism, the ensuing malaise pushed the country toward an economic collapse that combined with inter-ethnic conflict provoked a more hideous response: a long-drawn out civil war. Yugoslavia's Republic of Serbia stood in the middle of this, utilizing political and military force in an attempt to squash the independence movements launched by the nation's other republics and autonomous regions.<sup>41</sup>

To briefly summarize, as 1988 came to a close, Yugoslavia was suffering from an annual inflation rate of 236% and \$21 billion foreign debt. Nearly one-fourth of two million residents in the capital of Belgrade were without unable to pay even their basic utility bills, causing power companies to shut off power. Mine and railroad workers were staging strikes over unpaid salaries, asking for raises to meet their bills, and/or the productivity bonuses they fairly earned. Thousands more marched on Parliament demanding relief. Violence followed a miners strike and other calls for greater local self-governance by ethnic Albanians in Kosovo, further stoking already frayed intersectional tensions nationwide.

The situation spiraled out of control in January 1990, when calls by Croat and Slovene leaders to split the country into separate independent nations or for the creation of a loose federation with greater local autonomy were rejected by Serb President Slobodan Milosevic. Hostilities escalated further in August 1990, when Croat police forces skirmished with ethnic Serbs in Croatia. This turned into violent clashes between the Yugoslav army and Croatian paramilitary forces and ultimately into demonstrations in Belgrade against Milosevic and Serb

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<sup>40</sup> Ward's (1958–2014); Turnock (2004); Thompson (2011).

<sup>41</sup> The paragraphs on the breakup of Yugoslavia and civil war draw upon Wolchik & Curry (2011).

hegemony. Similar protests were held in Croatia by Serbs, with the latter spiraling out of control into violent confrontations between Serb and Croat forces on March 31, 1991.

The conflict was followed on June 25, 1991 by secession proclamations by Croatia and Slovenia on June 25, 1991 (reconfirmed on October 8, 1991). By September 8, Macedonia had had done the same, shadowed by Bosnia and Herzegovina on March 3, 1992. The Croatian War of Independence, however, dragged on until November 12, 1995. Meanwhile, tensions to the southeast between Bosnian and local Serbs and Croats escalated into the Bosnian War on April 6, 1992.

The Zastava's Kragujevac operations were at the forefront of these battles. By November 1992, the workforce had been slashed from 49,000 to 30,000, with the complex having been transformed into a military operation. Of the 30,000 working at the facility, only 2,000 were assembling Yugo. The remainder were assembling AK-47 assault rifles and other handheld weapons for the war in Bosnia. Not surprisingly, the civil unrest in Yugoslavia prompted sanctions from the West, which resulted in significant shortages in raw materials. This included embargos on automotive components imports and on finished vehicle exports. As a result, car production in Kragujevac plunged from 107,000 in 1991 to 25,271 in 1992 and then 7,500 in 1993 and 1994. Zastava closed its American imports office in April 1992 and sold only 1,412 Yugo there in that year. The sanctions also squashed negotiations with Daewoo, PSA, and Fiat regarding a long-term partnership with Zastava.<sup>42</sup>

The Bosnian conflict finally ended on December 14, 1995. Over the next two years, output in Kragujevac rose slightly to 11,124 in 1997. Nonetheless, this ceasefire was not the last battle for Serbia, which up until then had suffered relatively less war-damage than neighboring Croatia and Bosnia-Herzegovina. Beginning on February 28, 1998 through June 11, 1999, the Yugoslav Army (representing Serbia and Montenegro), clashed with Rebels from Kosovo. This prompted NATO

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<sup>42</sup> Ward's (1958–2014); Stojanovic (1992); Georgano (2000); Zastava (2008); Thompson (2011).



(North Atlantic Treaty Organization) to begin sending aerial forces backed by ground troops from the Albanian army on March 24, 1999. Over the next three months, NATO bombed Belgrade and other strategic locations in Serbia. This included Zastava Kragujevac, whose car and truck assembly halls, paint shop, forging factory, and power plants all were heavily damaged by bombing raids between April 9 and 12, 1999.<sup>43</sup>

Besides the war, other events also were conspiring against Zastava. Due to its own financial difficulties stemming from the 1997 Asian Fiscal Crisis, Hyundai pulled out of discussions with Zastava about building cars in Serbia. In contrast, the fighting with Kosovo had not prevented PSA of France from forging a preliminary agreement to produce between 10,000 and 40,000 KD kits of Peugeot 106 cars annually in Kragujevac in December 1998. This would have helped Zastava repay its outstanding debts to Fiat, which were estimated at between \$36 million and \$84 million. With NATO's entrance in the war, however, the arrangement was cancelled.<sup>44</sup>

On June 11, 1999, Yugoslav forces withdrew from Kosovo ending the conflict. By August 1999, output slowly resumed at the bombed-out Zastava factory, with the Serbian Government pledging \$800,000 and other credits through the Serbian Development Fund toward its reconstruction. This barely made a splash, however, as company officials estimated that the costs of just re-launch production at \$87 million and to restore the facility to its 220,000-plus pre-war capacity at \$650 million. What was left of the factory was capable of building maybe 60,000 cars per year, after assembling only 3,816 in 1999.<sup>45</sup>

Output in Kragujevac increased to 11,175 in 2000, before collapsing based upon various estimates to somewhere between 5,000 and 7,668 in 2001. In that same year, the Serbian Government drastically downsized the workforce of their near bankrupt automaker. Production rebounded

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<sup>43</sup> King (1998); Zastava (2008); Thompson (2011).

<sup>44</sup> Bursa & Farhi (1999); Zastava (2008); Thompson (2011).

<sup>45</sup> The remainder of this section draws upon: Ward's (1958–2014); Zastava (2008); Thompson (2011).

to around 13,000 annually between 2002 and 2005, but were greatly inhibited by newly instituted emission standards in the EU (See Table 8.2). To rectify this situation, Zastava signed an agreement to source 5,000 engines per year from PSA in 2002.

In contrast to the PSA deal, a \$200 million deal with a U.S. import firm to upgrade and produce 10,000 cars annually in Kragujevac for distribution in America fell through in 2004. Moreover, negotiations with Fiat on how to address a \$51 million debt still owed the Italian automaker stalled. In response, in March 2004, the Serbian Government announced plans to inject \$300 million in Zastava Kragujevac to raise output at the 4,300-worker plant gradually to 120,000 by 2007. Encouraged, Zastava entered into discussions with GM, Hyundai, Renault, and with the three Indian automakers, Ashok Leyland, Mahindra & Mahindra, and Tata Motors, about establishing a production alliance. None of these talks prove fruitful, resulting in the government reneging on its promised plant enhancement funds.

In September 2005, Fiat entered into an arrangement with Zastava to annually produce 16,000 second-generation Fiat Punto superminis in Kragujevac as the Zastava 10. The accord restricted sales of the cars to the Balkan states and Russia, but allowed for imports to Serbia of Italian-built Fiat Punto stamped as Zastava 10. This enabled Zastava to pay off its debt with the Italian automaker by June 2006. Nonetheless, despite the accord, Zastava's financial position continued to stymie production, with car output contracting to 10,252. According to company estimates, to survive and protect the approximately 100,000 job nation-wide dependent upon the 3,400-worker Kragujevac factory's success, Zastava needed access to \$1.5 billion in funds in order to develop a completely new model and build at least 50,000 cars per year.

Production of the Zastava 10 commenced in Kragujevac on June 4, 2007, but had very little impact on total output in that year. At that time, rumors now linked Hyundai and Tata Motors, as well as an unnamed Japanese automaker and GM as possible suitors to outright acquire the soon-to-be privatized Zastava. On July 19, 2007, Zastava and GM announced publicly that they had agreed on a five-year deal to produce Opel Astra Classic II in Kragujevac, with output expected to gradually increase to 10,000 annually by 2012.

This was to mark GM's second entrance into Serbia. Between December 1979 and the imposed war-related sanctions in May 1992, GM had assembled 38,700 KD kits of Opel Corsa, Kadett, and Vectra at their \$78.5 million IDA-Opel joint venture plant with Kikinda Iron Foundry IDA in Vojvodina Province. As part of GM's new deal with Zastava, the Serbian Government agreed to waive tariffs on the first 3,300 Astra imported into the country in 2007 and first 5,000 in 2008. The first Astra entered the market on July 30, 2007. Meanwhile, news reports added Fiat, Ford, VW, Magna-Steyr of Austria, and even the Chinese automaker FAW as potential bidders for Zastava.

## Fiat Takes Zastava

By the end of December 2007, Serbia's Privatization Agency went forward with the privatization tender for the national government and Serbian Development Fund's combined 99.0% share of Zastava. Anxious to get the process completed, the central government set May 31, 2008 as the date for final bids for its automaker. In the meantime, the Opel Astra deal appeared to be in jeopardy, when rumors suggested that Opel Gliwice in Poland would take on the production promised Zastava.<sup>46</sup>

On April 30, 2008, Fiat appeared to have won the right to takeover Zastava, signing a memorandum of understanding to invest \$1.1 billion for a 67.33% stake in a new company set to operate the automaker and the Kragujevac Plant. Fiat was to spend \$624 million over three years to retool the factory, with the Serbian Government contributing an additional \$156 million for a 33.67% share in the venture. Production of Fiat 500 minis was expected to start by the end of 2009, with the plant capacity scheduled to expand by 100,000 annually to 330,000 by 2012.<sup>47</sup>

On September 29, 2008, Fiat signed the contracts formalizing its 67/33 controlling interest in Zastava's automobile division, and establishing

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<sup>46</sup>Zastava (2008); Thompson (2011).

<sup>47</sup>Michaels (2008); MINA (2008); *Serbia Today* (2008–2015); Zastava (2008); Thompson (2011); Pavlinek (2015).

Fiat Automobiles Serbia. At part of the deal, the Government pledged to spend \$435 million on new roads, railways, power transmission, and environmental mitigation in the Kragujevac Area to support the project. In addition to the government subsidies, Serbia's labor costs, equivalent to \$400 per month for assembly workers, as compared with \$2,600 in Italy and \$1200 monthly in Poland, was considered a key factor motivating Fiat's decision.<sup>48</sup>

With the joint venture consummated, the central government approached GM about potential other sites in Belgrade, Kragujevac, and Sombor for its Opel assembly plant. These discussions, however, never advanced past the talking stages. Meanwhile, over the next month what was left of Zastava's legacy was wound down, with the last Zastava 10, Skala, Florida, and Yugo all rolling off Kragujevac's assembly line between November 8 and November 21, 2008. As a result, only 9,818 cars were built at the factory in 2008. Four months later, on March 30, 2009, output of the Fiat Punto Classic commenced in Serbia. To encourage purchases of the car at home, on April 15, 2009, the government established a program allowing customers to trade-in their old Zastava models for Punto. Additionally, following Fiat's finalization of its bid to take control of America's Chrysler Motors in June 2009, the government vowed to contribute another \$156 million toward the project.<sup>49</sup>

A total of 16,337 Fiat were assembled in Kragujevac in 2009 (See [Table 8.3](#)). The next spring, Fiat announced plans to launch the European edition of its brand new Fiat Novo Uno supermini in Serbia. This never became a reality, with output of the Fiat 500, similar to the Punto a year earlier, delayed by the aftershocks of the 2009 Great Recession and major factory renovations. In the interim, car assemblies dipped to 14,551 in 2010 and 10,227 in 2011. Production of the Punto Classic ended on March 25, 2011 in order to prepare the factory for a new model, the Fiat 500L MPV.<sup>50</sup>

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<sup>48</sup> *Serbia Today* (2008–2015); Zastava (2008); Thompson (2011).

<sup>49</sup> *Serbia Today* (2008–2015); *eKapija.com* (2009–2016); Thompson (2011).

<sup>50</sup> OICA (1999–2016); *Serbia Today* (2008–2015); *eKapija.com* (2009–2016); Ward's (2014).

The total revitalized Fiat Serbia Kragujevac Plant re-opened on April 16, 2012, with output of the Fiat 500L finally commencing in July 4, 2012. At that time, Kragujevac was the only plant building the plant worldwide. Output accelerated thereafter, jumping from 23,336 in 2012 to 113,487 in 2013 and then 101,576 in 2014. At the time, 70% of the parts installed in the 500L were domestically produced. The related expansion and modernization of the complex ultimately to the planned 300,000 vehicles per year was funded by a \$600 million loan from the European Investment Bank (maturing in 2021). Meanwhile, after meeting all the thresholds stipulated by the U.S. Government, Fiat acquired the outstanding 41.46% share of Chrysler held by America's United Auto Workers Union Trust, giving it 100% ownership of Chrysler on January 21, 2014. Eight days later, Fiat Chrysler Automobiles was established in the Netherlands. This moniker lasted only until December 16, 2014, when Fiat Chrysler officially changed its name to FCA Italy SpA. Three months later, on March 19, 2015, its Serbian operations were renamed FCA Serbia.<sup>51</sup>

As shown in Table 8.3, FCA Serbia built 91,895 Fiat 500L in 2015. Approximately 99% of these MPV were exported out of the country. The plant's 70-plus components suppliers employed another 35,000 nationwide. Nearly one-third of these workers were engaged by German-based firms, including Bosch, Continental, and Leoni. On the other hand, the government subsidized Kragujevac Industrial Park hosted included Magneti Marelli, Gruppo Proma, and Sigit of Italy and Johnson Controls of America. Suppliers at other locales included Delphi and Lear of America, Yura of Korea, Michelin, and Magna, among others. Many of these firms have located in the Serbian Motorway A1/E75 highway corridor that spans the length of the country from Macedonia north to Hungary, and ultimately links to major automotive clusters in CE, including Austria.<sup>52</sup>

While the future of the 3,100-worker, 200,000-capacity, FCA Serbia Kragujevac appeared promising in 2015, plummeting sales of the 500L

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<sup>51</sup> OICA (1999–2016); *Serbia Today* (2008–2015); *eKapija.com* (2009–2016); Jacobs (2016).

<sup>52</sup> OICA (1999–2016); RAS (2016); Sekularac (2016).

the first five months of 2016 changed that outlook. On June 15, 2016, FCA announced plans to lay off one of its three 900-worker shifts in Kragujevac by September. To help reduce staff and dislocations, FCA encouraged workers to apply for voluntary separation packages in compliance with Serbian law, which was equal to one-third of their annual wages per year of service, plus other payments. This ranged from around \$379 to \$2,020 per year of service, with amount dependent upon whether or not those years were for FCA or Zastava; Zastava years were reward at the lower end of the range.<sup>53</sup>

Fiat was on pace to produce another 87,500 in Kragujevac in 2016, or roughly one-fourth its planned progression to 330,000-capacity by 2012.<sup>54</sup> Moreover, while the 2015 figure was more than ten times the 7,668 car produced in 2001, it was still less than half the 180,950 built by Zastava in 1989 (See [Table 8.2](#)). Nonetheless, the plant's strategic location, coupled with Serbia's government subsidy programs, low wages, and available labor force (an 18% unemployment rate), has continued to tempt other foreign automakers to transplant some of its car assembly to the country. In addition to GM, Chinese, and Indian automakers, in 2014 VW's Skoda was rumored to be considering building cars at an Auto Cacak facility in Belgrade. This suggests that the Serbia's near-term prospects for car production may be more promising than FCA lets on.

## Renault-Revov Novo Mesto and Possibly Magna in Slovenia

On November 27, 1954, the local agricultural machinery firm Agroservis entered into an agreement with Auto Union to produce licensed copies of the West German automaker's DKW F89L Schnellaster vans in Yugoslavia. The following year, output of Moto Montaza delivery vans commenced at the venture's plant on Route 105

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<sup>53</sup> B92 (2011–2016); FCA (2016); Homola (2016a); Sekularac (2016).

<sup>54</sup> OICA (1999–2016).

in Novo Mesto, Slovenia. Situated between Ljubljana and Zagreb, the location proved strategic when the Yugoslav Government constructed the A2 Motorway (now also E70) through Novo Mesto in 1958, connecting it with the country's major cities.<sup>55</sup>

Following Daimler-Benz's takeover of Auto Union in 1958, the Novo Mesto Plant was renamed *Industrija Motornih Vozil* (IMV). DKW light van output continued and by 1962 included DKW F91 Universal station wagons. The tie-up was terminated, however, following Daimler-Benz's January 1, 1965 sale of Auto Union to VW, which subsequently ended production of the obsolete DKW two-stroke civilian models. In the meantime, IMV designed passenger vans were introduced in Novo Mesto.

IMV signed on with British Motors in 1967 (later British Leyland) and by 1968 was building licensed Austin IMV 1300 and the Austin IMV Maxi a year later. This arrangement lasted until 1972 with the Novo Mesto assembling 21,379 Austin-brand cars during the life of agreement. IMV then turned to Renault, which since November 1969 had been assembling Renault 4 minis with a company named Litostroj at a plant in Ljubljana. The Litostroj factory also manufactured gear-boxes for the car that was affectionately known in Yugoslavia as 'Katrca' (Katherine).

Production of licensed Renault 4 commenced at IMV in early-1973 and in 1975 a new 100,000-capacity factory was built on-site. During the mid-1970s, another 7,278 Renault 12 (R12) and 342 R16 also were assembled, with IMV employing more than 6,500 people at its peak. These vehicles were succeeded by the R18, of which 18,714 were built by IMV between 1980 and 1987. In the latter year, financial problems at IMV necessitated it taking on a foreign partner.

On June 22, 1988, Renault became a minority shareholder in IMV and the Novo Mesto operations were reincorporated as Revov. Eighteen months later, in December 1989, the plant launched output of the R5 supermini. A total of 46,000 cars were produced by Revov in 1989 (See [Table 8.2](#)). Approximately two-thirds of these were exported out of the

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<sup>55</sup>The first three paragraphs in this section were based upon: Thompson (2011); Revov (2016b).

country, primarily to France and Italy. The R5 became an important vehicle for the factory in the early Post-Socialist Period, cushioning the blow of the loss of the R4, which was discontinued in December 1992 after 575,824 Katrca were built in Novo Mesto. Approximately 45,000 R5 were built annually by Revoz and a total of 295,863 overall through the end of its production run in July 1996.<sup>56</sup>

Similar to Renault's pattern at Dacia, the R5 was built alongside its successor, Renault Clio supermini, when production of the Clio launched at Revoz in April 1993. Similarly, after the first five Clio II were tested in December 1997, the Clio was still produced until serial output of its successor commenced in March 1998. During this period, car output in Novo Mesto rose to 95,956 in 1997, with 93.18% of these cars exported in that year. In the interim, not long after Slovenia's June 25, 1991 split from Yugoslavia, Renault acquired a 54% majority stake in IMV. The French automaker then raised this share to 66.68% in 2001 and then to 100% on December 22, 2003, effective January 1, 2004.<sup>57</sup>

During this transition, output at Revoz expanded to 126,397 in 1998, then seesawed down to 116,082 in 2001 and back up to 131,752 in 2004 (all Clio II). Over 90% of these cars were exported out of the country, primarily to Western Europe. Over the next five years, aided by the introduction of the Renault Twingo II mini city car in March 2007, factory output gradually increased to 177,951 in 2005 and then to 212,680 in 2009 (See [Table 8.3](#)). In exchange for Renault's transferring production of the Twingo II to Novo Mesto, the Slovenian Government pledged to subsidize 10% of the expansion project's costs provided that domestic content of Twingo produced at the plant was 30% or higher. At the time, only 15% of value of Clio II were sourced locally. Interestingly, despite the Twingo related plant enlargement, year-end employment at the factory declined slightly between 2005 and 2009, from 2,621 to 2,480.<sup>58</sup>

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<sup>56</sup> Ward's (1958–2014, 2014); CEAR (1998); Turnock (2004); Thompson (2011); Revoz (2016b); Pavlinek (2015).

<sup>57</sup> Ward's (1958–2014, 2014); Revoz (2016b).

<sup>58</sup> Ward's (1958–2014, 2014); Renault (2006–2016); Revoz (2016a, 2016b).



Following this growth period, Revoz and its suppliers were hit especially hard by the 2009 Great Recession, with production halved to just 93,733 in 2013. During this period, 850 Revoz workers were laid off and another 1,300 lost at suppliers. The situation was compounded by the rumored \$3.8 billion aid package provided Renault by the French Government to convince the automaker to repatriate/maintain its French workforce.<sup>59</sup>

As shown in [Tables 8.3](#), output at Revoz rebounded slightly to 129,405 in 2015. As illustrated in [Table 8.3](#), this consisted of: 83,376 Twingo III; 4,550 of the outgoing Clio II; and 41,479 Smart Forfour EV. The latter were built through a joint venture contract manufacturing arrangement with Daimler. Launched in September 2014, the Smart Forfour EV has shared 70% of its parts with the Twingo III, which also will have an EV edition. Related to this, Renault invested a fresh \$550 million in its 20-hectare (49-acre), 210,000-capacity Revoz Plant to bring its 'Edison' EV project to the factory and was awarded \$31 million in state subsidies for doing so. To accommodate the new car models, employment at the 67.6-hectare (167-acre) site was raised to 3,178, as of December 31, 2015 (See [Table 8.1](#)). This included 2,100 Revoz employees and 1,078 contract workers. Employment increased to 3,600 in 2016. Another 5,000 people were engaged by suppliers and other firms connected to the automaker, and 16,370 people overall in Slovenia's 245-firm automotive industry in 2015.<sup>60</sup>

Approximately 85% of Revoz production in 2015 was exported out of the country, primarily to Western and Central Europe. This figure was 98% in both 2012 and 2013. In addition, 2015 production represented an increase of 13,323 or 11.48% as compared with the plant's car output in 2001, and nearly triple the 46,000 produced in Novo Mesto in 1989. This was expected to expand further in the near future as a result of Renault's March 17, 2016 announced of its intentions to again re-tool its Revoz Novo Mesto complex in order to add output of the Clio IV supermini in February 2017. The Clio II was last produced at the factory

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<sup>59</sup> *Slovenia Times* (2009–2016); Renault (2006–2016); Revoz (2016a).

<sup>60</sup> *Slovenia Times* (2009–2016); Renault (2006–2016, 2016); Revoz (2016a).

on May 5, 2015. The move was deemed necessary to meet demand for the vehicle, which has outstripped capacity at Renault's related plants in Flins, France and Bursa, Turkey. Company officials also praised the quality of the workforce in Slovenia, although the nation's significantly lower labor costs relative to Renault's plants in France and Spain also was surely attractive to the automaker.<sup>61</sup>

Overall, the future appears bright for the former Yugoslavia Republic that between 1960 and 1980 also assembled licensed Citroen superminis at its Citroen-*Tovarna Motornih Koles Sezana* (Cismos) joint venture in the port city of Koper, Slovenia. This outlook grew even brighter on September 21, 2016, when Magna Steyr, a subsidiary of Magna International of Canada, announced that it was considering building a car plant in a special industrial zone in Hoce-Slivnica. Poland's former FSO Warsaw-Zeran and an unknown greenfield in Hungary also were considered as contenders for the facility.<sup>62</sup>

Located less than 10 km (six miles) from the City of Maribor in eastern Slovenia, Hoce-Slivnica was situated only 77 km (48 miles) south of Magna Steyr's main car factory in Graz, Austria and 122 km (76 miles) northeast of Novo Mesto. Hundreds of Slovenians already work at the 200,000-capacity Graz Plant, which produced Mercedes-Benz G-Class SUV for Daimler and Mini Countryman and Paceman crossovers for BMW in 2016. Mini output at Magna was expected to be replaced in 2017 by BMW 5-series luxury cars. The Graz factory also was scheduled to begin producing Land Rover and a new BMW-Toyota jointly developed sports car in 2018. The new plant was expected to handle overflow from these developments.<sup>63</sup>

On October 14, 2016, Magna officially incorporated a Slovenian subsidiary. At that time, stories circulated that the giant automotive supplier might only build a car paint shop in Hoce-Slivnica, but still large enough facility to foster the creation of 3,000 jobs in the area. In preparation for Magna's decision, or possibly to attract another foreign

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<sup>61</sup> *Slovenia Times* (2009–2016).

<sup>62</sup> *Slovenia Times* (2009–2016); Homola (2016b).

<sup>63</sup> *Slovenia Times* (2009–2016); Homola (2016b).

car factory, the central government has begun preparing a 100-hectare (247-acre) industrial park near the Maribor Edvard Rusjan Airport at the junction of Motorway A1/E57, A4/E59, and National Route 430. The \$11 million in funding approved to develop the tract also was expected to create accessibility to an existing rail freight line running through the Drava River Region.<sup>64</sup> All things considered, once the development is shovel-ready its transport infrastructure and proximity to Western and CE markets should make it an attractive magnet for attracting a second passenger car plant to Slovenia.

## Conclusion

As of December 31, 2015, the four active passenger car plants in the SEE Auto Zone—Renault’s Dacia Pitesti, Revoz Novo Mesto, Ford Craiova, and FCA Kragujevac—collectively employed 21,388 people and had an annual vehicle capacity of 1.16 million vehicles (See [Table 8.1](#)). The factories were supported by a combined 900-plus automotive components suppliers engaging nearly 250,000 workers in Romania, Serbia, and Slovenia.

Despite this capacity, the potential of the SEE Auto Zone has remained partially untapped, as the area’s four car factories produced 608,471 passenger cars in 2015. On the other hand, this output represented an increase of 427,947 or 237.06% as compared with 2001, when only 180,524 cars combined were produced in these three territories (See [Table 8.2](#)). This jump in annual output was somewhat overshadowed by the political-economic turmoil that these areas experienced following the fall of Socialism, which resulted in annual car production declining by 53.35% or 206,426 units in 2001 from 386,950 in 1989.

Barring something unforeseen, its lower wages and abundant supply of labor should insure that Europe’s next ring of auto producing nations does not suffer a similar contraction in the near-term. In fact, wages and

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<sup>64</sup> *Slovenia Times* (2009–2016); Slovenia (2016).

productive labor should prove especially valuable during an era when the world's largest automakers continue to seek ways in which to both cut overall production costs and expand sales in Emerging Europe. FCA's uncertain future remains the only question mark for the existing plants, but even this should not inhibit expansion in the SEE during the next decade. As if FCA were to abandon its Kragujevac plant, its place will be gladly taken by Skoda, Hyundai, or by a globally expanding Chinese and Indian automaker.

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