Peugeot Citroen in H1 loss as Europe hits business

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(AP) — Europe's economic crisis pushed carmaker PSA Peugeot Citroen into a first-half loss of €819 million ($990 million), just as the company is set to clash with the French government over its restructuring plan.

The maker of two-thirds of France's cars is being hit by a deepening recession in many markets in Europe, its main market. The company's share price has more than halved since March.

But on Wednesday, the stock price surged when the Paris bourse opened and was up more than 5 percent in early trading on the back of hopes that the company would stick with a controversial cost-cutting plan and expectations for a government plan to support the industry.

The day, however, reversed those gains and the shares ended down 2.5 percent. First, Peugeot chairman, Philippe Varin, acknowledged to reporters that its cost-cutting plan was still in flux as the company negotiates with unions.

In fact, the government said its support plan would require companies to keep all industrial sites open — and Varin said Peugeot was looking into ways to save at least some jobs at Aulnay, the factory outside Paris that it wanted to shut.

Second, the government plan, while it will offer incentives for companies to invest in green technology, appears to contain less new money than it first seemed.

Last, U.S. ratings agency Fitch on Wednesday downgraded the automaker's credits score from BB+ to BB, warning that further downgrades might be possible.

Peugeot's first-half loss contrasts starkly with a profit of €805 million in the same period last year and came on the back of a 5.1 percent fall in revenue to €29.6 billion.

The company doesn't expect demand in Europe to pick up anytime soon, saying Wednesday that it expects its market to contract by 8 percent this year.

In response, Peugeot announced earlier this month that it would close a major factory in France and cut 8,000 jobs — part of a plan to save €2.5 billion by 2015. Those savings will also come from efficiencies gained by an alliance with General Motors. About half — €1 billion — are promised for this year alone.

"The group is facing a difficult time," Varin said. "The depth and persistence of the crisis impacting our business in Europe requires the launch of the reorganization of our French production and a reduction in our structural costs."

Varin said he understood how hard it would be for laid-off workers but it was necessary for the company's survival.

"This plan is a shock, a shock for us, a shock for the nation," he told reporters as he explained the results. "It's a decision, like all shocks, that is difficult to understand at the beginning."

He said the company was in the process of explaining — and defending

— the plan to the government and union leaders.

President Francois Hollande's Socialist administration has criticized Peugeot's cost-cutting plans as unacceptable and said it will force the company to save some of the jobs it wants to trim.

Varin left open the possibility that the cost-cutting would be less severe in its final form, calling it a mere "outline" when pressed by reporters.

Meanwhile on Wednesday, the government unveiled its strategy to support the auto industry — part of its carrot-and-stick strategy with Peugeot. It gives rebates to French consumers who buy clean-energy vehicles and offers incentives to companies that invest in those technologies.

But much of Peugeot's problems stem from a glut of cars in the European market, and it's unclear how much the government can do for the company. France's car industry had already been given a bailout under former President Nicolas Sarkozy.

The problems have touched car companies across the continent, where industry executives estimate factories have the capacity to build 20 percent more cars than they are able to sell.

Sweden's Volvo reported Tuesday that its second-quarter net profit fell 5 percent, while Germany's Daimler said Wednesday that profit for the quarter pulled back 11 percent.