

# Mirafiori's choice

*Fiat's plan for flexible working in Italy must be supported*

Last year, Sergio Marchionne, the boss of Fiat, made the company's Italian workers what he hoped was an offer they could not refuse. In exchange for their accepting flexible contracts and increasing productivity, he would invest €20bn in the carmaker's loss-making Italian operations in order to double production. If they rejected his offer, he would pull Fiat out of Italy. On Thursday, the employees at Fiat's Mirafiori plant near Turin will vote on Mr Marchionne's plan. It deserves to be accepted.

The global car industry is beset by over-capacity. Manufacturers have the means to make 94m cars a year, but can sell only 64m. This is not only wasteful; it also means that, to survive, firms must ratchet up productivity. This has not, according to Fiat, been the strong point of its Italian workforce: the 22,000 workers at the company's five Italian plants produce about 650,000 cars a year. The 9,400 Stahlanovites at its Brazilian factory churn out 750,000. Mr Marchionne's plan would help remedy this discrepancy.

However, to survive future squalls in the car market, Fiat will need to do more than boost productivity. It must also reorientate itself to the changing patterns of global demand. Today's growth markets are Latin America and

Asia, yet Fiat is still essentially a European manufacturer with an offshoot in Brazil.

To his credit, Mr Marchionne recognises this. On January 3, he completed the demerger of Fiat's carmaking business from its other operations, paving the way for an alliance (or merger) with Chrysler, in which Fiat already holds a 25 per cent stake. Such a union would bring Fiat closer to the economies of scale it needs to compete with the likes of Toyota and Ford. And it would allow Fiat both to sell to new markets and to shift production to where it is most efficient.

Yet even as it boosts output in emerging economies, Fiat will also have to trim production in the saturated European market. It is not alone in this. A combination of soft government loans and car scrap-age schemes helped European manufacturers through the global economic crisis. But it also postponed any significant cuts to the chronic over-capacity that plagues the European market. This reckoning cannot be put off for ever.

Such an adjustment may be painful for countries that still regard carmakers as national champions. But the future of the auto industry is supranational. The workers of Mirafiori should bear this in mind as they weigh Mr Marchionne's offer.

