Ukraine's auto parts industry at standstill amid raging war

German car sales plunge as war disrupts supply chains

PARIS: Ukraine's car parts industry, which supplies many vehicle manufacturers in western European, has taken a battering since the Russian invasion one month ago. Factories are at a standstill, cable production has slumped and there are concerns about neon supplies. Ukraine saw its domestic car production industry nosedive when the Soviet Union collapsed but successfully reinvented itself in the early 2000s as a major producer of automotive parts.

The country's proximity to the European Union, its skilled workers and low labor costs have attracted a string of Western manufacturers, particularly from German groups like Bosch, Kostal and Prettl. By 2021, they were employing 60,000 workers in 38 Ukrainian plants, according to government figures.

The factories produce electronic components, car seats and, crucially, electric cables. A maze of cables known as a wire harness runs through every vehicle and constitutes its central nervous system. A large SUV like the Porsche Panamera contains several kilometers (miles) of these cables.

Before the Russian invasion on February 24, Ukraine was one of Europe's biggest manufacturers of electric cable. Last year it supplied 760 million euros ($835 million) worth of cables to the EU's automotive and aeronautics industries, according to the European Association of Automotive Suppliers (CLEPA).

Some 45 percent of Ukrainian harnesses go to Germany and Poland. Every vehicle has a "specific wire harness", which requires 10 to 15 hours of manual labor and is produced on a just-in-time basis, two to three days after order, Volkswagen boss Herbert Diess explained in early March.

Most of the parts factories are located in western Ukraine, which has been somewhat spared the worst of the war, and employ mostly women. The plants are seem to be working to "a certain extent" but shipping parts out to Western Europe is "equally challenging", according to CLEPA secretary-general Sigrid de Vries.

Domino effect

At the Polish border, the Bosch factory in Krakovets has slowly resumed production of starter motor parts "at the request of 180 employees who want to get back to work", the world leader in car parts told AFP. "We continue to apply the strictest security measures for workers on site," Bosch continued, adding that it had paid workers "several months of wages in advance".

Several Western manufacturers have taken the radical option of creating duplicates of entire factories in countries neighboring Ukraine.

A few days before the war started, Ireland's Aptiv moved cable production to mirror sites in Poland, Romania and Serbia. "(Cable production) isn't that complicated to relocate. They're relatively straightforward pieces of equipment," explained Alexandre Marian of consulting firm AlixPartners.

But de Vries cautioned that "it's easier said than done" as the auto parts industry is labor intensive.

"It's very specific to a certain model. It needs time and careful reflection on what to do," she said.

Car plants in eastern Europe employ many Ukrainians and a number have gone back home to fight, as have Ukrainian lorry drivers, who make up a significant proportion of the transport workers shipping parts to western Europe. As a result, Volkswagen, BMW and Renault have all had to suspend production at certain factories.

Ukraine, a major steel producer, is also the world's top exporter of neon, which is essential for manufacturing semiconductors. While the manufacturing process has adapted since Moscow annexed Crimea in 2014 and there are adequate stocks of neon, "there could be a problem in the medium term", AlixPartners' Marian said. However, any Ukrainian shortage would be less consequential than the scarcity of Russian raw materials, he added.

More widely, it is the rocketing prices of energy-gas, oil, and electricity-that worry the sector the most. The war has worsened the prospects of a vehicle market already struggling from the impact of the COVID-19 pandemic, the semiconductor shortage, logistical costs and the rise in the price of raw materials. Global sales are expected to fall a further two percent in 2022, particularly in Europe. Standard & Poor's (S&P) had hitherto forecast a rise of four to six percent. And although carmakers have succeeded in putting up prices and protecting their margins, parts manufacturers have to find "a delicate balance" between rising supply costs and cautious clients, S&P's Vittoria Ferraris pointed out. — AFP

Markaz: Oil crosses $120/b and propels GCC markets higher

KUWAIT: Kuwait Financial Centre "Markaz" recently released its Monthly Market Review report for the month of March 2022. In line with its GCC peers, Kuwait's all share index gained 6.7 percent in the month of March, supported by a rise in oil prices. Oil prices, which were a major driving factor for the GCC stock market performance, crossed $120 per barrel mark in the month of March.

Among sectors, Boursa Kuwait's Banking sector was the top gainer, rising 9.9 percent followed by financial services sector at 5.3 percent. Healthcare sector had the biggest decline in the month and Energy sector index declined, falling 5.3 percent. Among Premier Market stocks, National Investments Company and Boursa Kuwait were the top gainers during the month, rising 23.7 percent and 14.3 percent respectively.

Inflation in Kuwait rose to 4.37 percent YoY driven by rising prices of food and housing services, in the month of February 2022. Kuwait's government is taking cautious measures to keep critical commodity prices in check and has halted all grain exports for the next three months. Central Bank of Kuwait has raised its main interest rates by 25 bps in March, subsequent to the interest rate hike by the US Federal Reserve and Kuwaiti banks are expected to be benefitted by this interest rate hike. Saudi Arabia, UAE and Bahrain have also increased their policy rates by 25 bps. Kuwait's M2 money supply expanded 1.9 percent YoY in January, and bank lending to the private sector grew by 6.8 percent YoY in the same month. Kuwaiti bank revenues grew 7.1 percent in 2021 with profits almost doubling to $2.9 billion driven by increase in revenues as well as decline in loan loss provisions. According to Moody's, Kuwaiti Islamic banks have recorded the fourth best growth rate in financing operations, globally, during the period 2019-Q3 2021.

Ali Alghanim & Sons whose businesses include car dealerships, construction and electronics has filed to list on Boursa Kuwait and the company is expected to sell a 45 percent stake in the listing, as per Bloomberg.

Regionally, S&P GCC composite index rose by 4.8 percent for the month, driven by upward oil price momentum. All GCC markets gained for the month. Abu Dhabi and Bahrain equity indices were the biggest gainers among GCC, rising 6.8 percent and 5.6 percent respectively over the month. Qatar, Saudi Arabia and Oman equity indices also marked a gain of 4.5 percent, 4.0 percent and 3.7 percent respectively over the month. Among the GCC blue chip companies, the best performer was First Abu Dhabi Bank, which gained 14.6 percent during the month. Due to a sharp increase in oil prices and robust domestic demand, Saudi Arabia's real GDP increased by 6.7 percent year on year in Q4 2021. S&P upgraded Saudi Arabia's outlook from stable to positive, as it expects improved GDP growth and fiscal dynamics in the medium term, improved oil sector prospects and the Government's reform programs. The IPO of Dubai Electricity and Water Authority (DEWA) opened for subscription on March 24, intends to float 17 percent and could raise as much as $5.7 billion.

Fossil fuel assets risk evaporating in climate fight

PARIS: Oil platforms, pipelines, coal power plants and other fossil fuel assets could lose trillions of dollars in the battle against climate change in the coming decades, experts say. The warning was issued in a 3,000-page report by UN experts who said fossil fuel assets must be retired and replaced with clean energy faster to mitigate financial losses.

Such assets will become "stranded" and worth less than expected because they may never be used since fossil fuel demand must fall in the near future to limit greenhouse gas emissions.

Limiting warming to the aspirational 1.5 degree Celsius target in the Paris Agreement, or the more conservative 2C goal, "will strand fossil-related assets", said the UN's Intergovernmental Panel on Climate Change (IPCC) in its latest report Monday. "The combined global discounted value of the unburned fossil fuels and stranded fossil fuel infrastructure has been projected to be around 1-4 trillion dollars from 2015 to 2050 to limit global warming to approximately 2C, and it will be higher if global warming is limited to approximately 1.5C," the IPCC said.

Any move to alleviate the impact of climate change means using less fossil fuel, thus rendering assets obsolete as companies are under pressure to move away from harmful energy production.

The IPCC said that if current oil, gas and coal energy infrastructure were to operate for their designed lifetime-without technology to capture and store carbon-capping global warming at the 1.5C target would be impossible. It said nations should stop burning coal completely and cut oil and gas use by 60 and 70 percent respectively by 2050 to keep within the Paris deal goals, noting that both solar and wind were now cheaper than fossil fuels in many places.

The idea of "stranded assets" dates back to the 2010s and was put forward by think tank Carbon Tracker. Companies could be further affected by governments taking decisions such as increasing the price of coal or even banning certain energies. Consumers could also turn to other products like electric vehicles. Other assets impacted include infrastructure such as drilling platforms, which have become useless quicker than expected. Some fossil fuel reserves will become too costly to exploit due to falling prices.

For the IPCC, coal-related assets are the most vulnerable before 2030, than those that are oil- and gas-related towards mid-century. The idea of stranded assets, taken up by both environmentalists and investors, has gained popularity and has been used in shareholder meetings of energy companies such as ExxonMobil or TotalEnergies. —AFP

Car sales sink in sanctions-hit Russia

MOSCOW: New car sales sank almost 63 percent in Russia in March year-on-year, industry data showed Wednesday, as the West pummels the country with sanctions over Moscow's military campaign in Ukraine.

The massive drop in the car and light commercial vehicle segment comes after Russian troops entered Ukraine on February 24, prompting severe Western sanctions, including a ban on spare parts export to Russia. The Russian operation also caused the ruble to plummet in value, making Russians less likely to buy imported cars.

Only 55,129 units were sold last month, a 62.9 percent drop from the same period last year, according to the Association of European Businesses. The association did not explain why the figures fell, as it would usually. Sales of the country's most popular and affordable brand, Lada, whose Avtovaz manufacturer is majority-owned by the Nissan-Renault group, fell even more sharply by 64 percent.

Renault is under intense pressure to boycott Russia over Ukraine and considering whether to withdraw from Avtovaz. It owns Avtovaz in partnership with Rostec, a state-owned defense conglomerate run by Sergei Chemezov, a sanctioned close ally of Russian President Vladimir Putin.

The Nissan-Renault group has tens of thousands of workers in Russia and spent billions updating Avtovaz. Western carmakers have ventured into Russia to assemble cars over the past two decades as the country's economy expanded. Renault said in late March that it was suspending production at its Moscow plant for Renault and Nissan models.

Numerous car makers have stopped sales of their cars or parts to Russia-including Audi, Honda, Jaguar and Porsche. Makes that have halted Russian production include BMW, Ford, Hyundai, Mercedes, Volkswagem and Volvo. Russia's year-on-year car sales for February were down 4.3 percent. — AFP

MOSCOW: New car sales sank almost 63 percent in Russia in March year-on-year, industry data showed Wednesday, as the West pummels the country with sanctions over Moscow's military campaign in Ukraine.

Compact, green and car-free: Can city living beat climate change?

PARIS: With a whopping 70 percent of humanity predicted to be living in urban areas by the middle of the century, UN climate experts see a huge opportunity to create ideal cities that are walkable, leafy and energy efficient. Urban areas currently account for around 70 percent of global greenhouse gas emissions, notes a comprehensive report on climate change solutions from the UN's Intergovernmental Panel on Climate Change released this week.

We are in the "urban century", the report says, with nearly seven billion people expected to live in built-up areas by 2050. If this rapid expansion is chaotic, unplanned and inefficient it could cause emissions to explode. But the IPCC says there is another option.

"Although urbanization is a global trend often associated with increased incomes and higher consumption, the growing concentration of people and activities is an opportunity to increase resource efficiency and decarbonize at scale," the report says.

Cities are already more efficient: For the same level of consumption, a city dweller often needs less energy than their neighbor in the countryside. That's because of the economies of scale in densely populated areas, where people share infrastructure and services, it says. The IPCC did not give specific price tags for the measures it outlines, but stressed that they would vary considerably from place to place, but stressed that electrification, for example, was a "feasible, scalable and affordable" way of decarbonizing public transport systems. Overall, the IPCC makes clear that the economic benefits of cutting carbon pollution outweigh the costs of climate inaction. Air pollution, for example, causes some seven million premature deaths each year around the world. —AFP

Plants on city streets and rooftops can help cool cities in heatwaves and absorb CO2.