

Geely faces hurdles in quest for Volvo

Financing and technology issues could delay Zhejiang Geely Holding Group, the parent of Geely Automobile, in its plan to acquire the Volvo brand from US automaker Ford Motor Co, said sources familiar with the matter on Tuesday.

According to the sources the chances of a short-term deal now looks bleak, unless the two sides make major concessions.

"The two parties are yet to reach a definitive agreement due to unsolved obstacles and uncertainties," the sources said, without elaborating.

In December, the two companies had said a definitive agreement would be signed by the end of March and the whole deal would be completed by June 30 this year.

Geely was immediately unavailable for comment, but its President Li Shufu had last week told Reuters that the agreement with Ford would be signed as planned. The deal, when completed, would be the largest overseas purchase by a Chinese car company.

A major problem that is compounding the deal is the relatively weak position that Geely is in now compared to last year.

"Last year Ford had cash flow problems. But the situation has changed now and Ford is on a strong wicket," he said.

The US automaker had lost \$30 billion in the three years starting from 2006 and put Volvo up for sale in late 2008 to help pay off its debts.

Sales of Ford vehicles, however, increased 43 percent in February and its shares jumped to \$13.34 on Monday from \$2.1 a year back.

Another bone of contention between the two sides is the technology transfer issue.

"It is hard to say whether Ford will transfer the platform technologies to Geely along with the deal," said John Zeng, an analyst with Shanghai-based Global Insight.

Ford's reluctance primarily stems from the fact that its platform technologies are closely aligned with that of Volvo.

For instance, the Volvo S40 compact car and Ford Focus have the same platform. This is also the case with Volvo S80 sedan and the Ford Mondeo, Zeng said.

"If Geely is unable to get the platform technologies for these key models, the deal will not have much meaning," he said.

But the silver lining could be the fact that Ford has decided to focus on its flagship brand alone and shed its luxury brands. "That is a compelling reason for Ford to sell the Volvo brand," Zeng said.

The third stumbling block for the whole deal is whether Geely would be able to secure the funds required to complete the deal.

Geely has so far managed to secure \$2.1 billion worth of financing. Most of the funds have been raised from unidentified financial institutions and local governments, said reports.

Analysts say therein lies the problem for Geely. The funds from local governments may take some time to materialize and that could delay the deal.

Even if Geely does manage to get the funds it will have greater challenges in continuing the Volvo brand, said Li Daguang, an analyst with Nomura Research Institute Shanghai Ltd.

After acquiring the brand from Ford, Geely would have to spend at least \$1.4 billion to finance car development, marketing, production and distribution next year, said Bloomberg reports, citing Volvo union officials and board members.

Last month, Sichuan Tengzhong Heavy Industrial Machinery Co withdrew its bid for GM's Hummer brand after the deal failed to get government approval within the stipulated time.

Source:China Daily

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