

Saab to build Cadillacs in Sweden

General Motors, the world's largest car maker, has confirmed that it will build a new medium-sized Cadillac BLS at its loss-making Saab factory in Sweden.

The car, unveiled at the Geneva motor show, is intended to compete in the medium-sized luxury car market. It will not be sold in the US, said GM Europe president Carl-Peter Forster. As part of its efforts to make the US marque appeal to European drivers, the car will be the first Cadillac with a diesel engine.

GM's announcement should go some way to allay fears of the Saab factory's closure. The factory in Trollhaettan has been at the centre of rumours about GM's planned severe cutbacks in its troubled European operations. But the group's new commitment to the Swedish factory may not be welcomed by the group's Opel workers in Ruesselsheim, Germany. They may now have to face a larger proportion of GM's cuts.

Neither will the announcement be seen as unalloyed good news in Sweden, since it reflects Saab's failure to make significant inroads into the lucrative European luxury car market. For years, Saab has consistently said it is competing head-on with BMW, Mercedes and Jaguar. The segment's leaders do not agree.

GM's plans to build the American marque in Sweden is part of its efforts to push it as an alternative luxury brand for European drivers. In the US, it has long been established as an upmarket brand - even the presidential limousine carries the badge. Yet it could prove tough for Cadillac to steal market share from the majors in Europe. Other luxury car makers, most notably the Toyota subsidiary Lexus, have enjoyed tremendous success in the US without managing to make

significant inroads in Europe. There, German marques Mercedes Benz and BMW have retained their stranglehold on the luxury market.

Bringing Cadillac production to Sweden should help introduce desperately-needed scale to the Saab factory, which currently produces fewer than 130,000 cars per year. That is about half of what major car makers consider sufficient numbers for profitable operations, and Saab is losing money fast - albeit with losses halved in 2004 to \$200m (£104m; 151m euros) from \$500m the previous year. Beyond the 12,000 job cuts announced last year at its European operations, GM is reducing expenditure by building Saabs, Opels - badged as Vauxhalls in the UK - and now Cadillacs on the same framework, and by allowing the different brands to share parts. Another way to further reduce Saab's losses could be to shift some of the production of Saabs to the US, a market where drivers have adopted it as an upmarket European car. Doing so would remove the exposure to the weak US dollar, which is making Saabs more expensive to US consumers. But not everyone in the industry agree that it would be the best way forward. "We know that in five years the US dollar will be stronger than it is today," the chief executive of a leading European car maker told BBC News. The current trend towards US production was "stupid", he said.

In a separate announcement, GM unveiled a new scheme to allow European consumers the chance to test drive its Opel and Vauxhall models. It is to deploy a fleet of 35,000 test cars across 40 countries, inviting potential buyers to try out a vehicle for 24-hours. It follows a similar initiative by GM in the US. GM said it wanted to change "customers' perceptions" about Opel and Vauxhall cars, showing them that the quality had improved in recent years.