

PSA Group Acquisition of Opel and Vauxhall Brands Faces Economic and Political Challenges

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PSA Group, the French manufacturer of Peugeot- and Citroën-brand vehicles, agreed to acquire the Opel and Vauxhall brands from General Motors for [\\$2.3 billion](#). The deal [includes](#) Opel and Vauxhall's full product lines and production facilities across Europe, as well as Opel's bank. In acquiring its German rival, PSA propelled itself to the position of Europe's second-ranked carmaker by sales behind Volkswagen. GM, to its benefit, [dispatched](#) of its European arm that has been losing money since the 1990s. However, the merger is not without both microeconomic and macroeconomic [concerns](#).

Although the deal puts PSA in a strong position to challenge Volkswagen, the company must demonstrate post-merger profitability to remain competitive. Both companies have more capacity than necessary, and the Opel brand has not been profitable in recent history. Industry observers have expressed anxiety over potential factory closures and job reductions, but the Chairman of PSA [maintained](#) the company would target cost reductions in research and development in order to avoid factory closures. Proposed methods to achieve such cost reductions include redeveloping Opel vehicles with PSA technology and architectures.

Although the French government supports the acquisition, the success of the merger may be subject to the increasingly tense political relations of the companies' parent countries. Recently, European politicians have demonstrated an increasing [awareness](#) of and interest in corporate decision-making as they face a rise of [right-wing populism](#). The automotive industry can be an especially sensitive issue for populist constituents, since job losses or reductions associated with flagging car factories will most heavily impact less-educated, lower-income workers.

France is home to most of the Peugeot and Citroën factories, while Britain and Germany are home to the largest Opel and Vauxhall factories. PSA must [balance](#) the needs of elected officials and labor leaders in these countries in order to make the acquisition successful. Britain's exit from the European Union ("Brexit") also raises [concerns](#) regarding the vulnerability of Vauxhall's British plants at Ellesmere Port and Luton. If PSA exports cars from Britain to the European continent, the company may find themselves subject to substantial tariffs.

Europe is a [challenging](#) market for automobile manufacturers. Customers expect groundbreaking features in small cars that have low profit margins. It remains to be seen whether PSA can leverage its new brand acquisitions to find dominance in the European market, or perhaps growth in the global market that allows reduced reliance on the demanding European market. However, in order to work amicably with European politicians and labor leaders, PSA will be [challenged](#) to meet such goals without eliminating jobs.