



Eurofound

Social dialogue and recession in the automotive sector: a global perspective

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Introduction

The economic crisis began in the last quarter of 2008 and has severely hit the automotive sector. Global sales in all market segments dropped significantly, in part because the credit crunch inevitably affected an industry where customers often rely on credit for their purchases.

The challenges linked to the recession have exposed the various weaknesses of the sector overall, and of individual companies. In this sense, restructuring has accelerated. But the effects of the global downturn have been felt in very different ways in different areas of the world. The downturn is expected to have greater consequences in advanced economies than in emerging ones. This report compares the world's three most important automotive production areas and markets (Japan, the EU, and the US) and includes some information from three of the most promising areas for development of the automotive sector in the near future (Brazil, China and India). The impact of the recession on the EU automotive sector is dealt with in greater detail in another Eurofound report (Pedersini, in press).

Economic downturn in the automotive sector: the impact worldwide

As can be seen in Table 1, the world economic crisis has had a remarkable effect on the automotive sector. The slowdown reversed a growth trend, which had persisted since the early 2000s, reaching a peak of more than 73 million motor vehicles produced worldwide in 2007. Output began to drop in 2008, down some three million vehicles on the previous year (-4%), but the actual slump came in 2009, with a further drop in output of almost 10 million vehicles (or -13.5% on an annual basis). In two years, worldwide output dropped by nearly 17%.

Table 1: *World motor vehicle production 2004–2009 (millions of vehicles)*

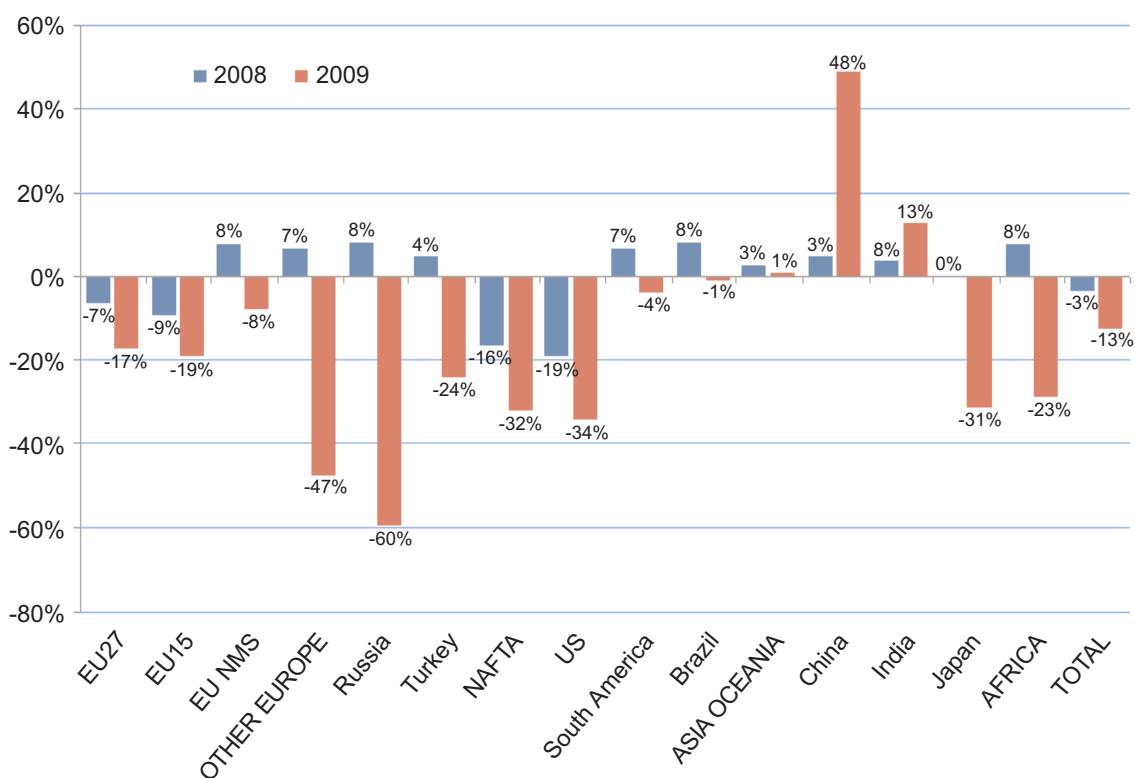
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Percentage change 2004–2009 | Percentage change 2007–2009 |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------------|-----------------------------|
| EU27 | 18.45 | 18.39 | 18.67 | 19.72 | 18.44 | 15.25 | -17.3 | -22.7 |
| EU15 | 16.85 | 16.47 | 16.28 | 16.69 | 15.17 | 12.24 | -27.4 | -26.7 |
| EU NMS | 1.59 | 1.92 | 2.39 | 3.03 | 3.26 | 3.01 | 88.9 | -0.7 |
| Other Europe | 2.38 | 2.43 | 2.73 | 3.13 | 3.34 | 1.76 | -26.2 | -43.9 |
| Russia | 1.39 | 1.35 | 1.51 | 1.66 | 1.79 | 0.72 | -47.9 | -56.5 |
| Turkey | 0.82 | 0.88 | 0.99 | 1.10 | 1.15 | 0.87 | 5.6 | -20.9 |
| NAFTA | 16.26 | 16.32 | 15.88 | 15.45 | 12.94 | 8.76 | -46.1 | -43.3 |
| US | 11.99 | 11.95 | 11.26 | 10.78 | 8.69 | 5.71 | -52.4 | -47.0 |
| South America | 2.56 | 2.99 | 3.21 | 3.70 | 3.94 | 3.78 | 47.3 | 2.0 |
| Brazil | 2.21 | 2.53 | 2.61 | 2.98 | 3.22 | 3.18 | 44.0 | 6.9 |
| Asia and Oceania | 24.09 | 26.83 | 28.19 | 30.71 | 31.51 | 31.75 | 31.8 | 3.4 |
| China | 5.07 | 5.71 | 7.19 | 8.88 | 9.30 | 13.79 | 172.0 | 55.3 |
| India | 1.51 | 1.64 | 2.02 | 2.25 | 2.33 | 2.63 | 74.2 | 16.8 |
| Japan | 10.51 | 10.80 | 11.48 | 11.60 | 11.58 | 7.93 | -24.5 | -31.6 |
| Africa | 0.42 | 0.52 | 0.57 | 0.54 | 0.59 | 0.42 | -1.3 | -23.5 |
| Total | 64.17 | 66.48 | 69.26 | 73.27 | 70.76 | 61.71 | -3.8 | -15.8 |

Source: *The International Organization of Motor Vehicle Manufacturers (OICA)*, different years, <http://www.oica.net/>, accessed on 27 April 2010

However, it is interesting to note that in 2008 the recession was felt essentially in the EU15 and in the US (Figure 1). In the EU15 during 2007, production declined by 9% and by nearly 20% in the US. In Japan, output stalled. In all the other areas output continued to grow.

In 2009, the fall in production was widespread and included the whole of Europe, including non-EU countries, with a steep decline in Russia and a remarkable drop in Turkey. In Japan, output dropped by more than 30%. The exceptions to this general downward trend were Brazil, China and India. In Brazil, output levels were almost unchanged. The only countries that continued to expand production and were able to dramatically accelerate their pace of growth were India (which boosted its production by 13%) and China (by 48%). China's very high increase in output clearly signals the potential role it can play in the future in the automotive sector. In 2009, Chinese production levels have been surpassed only by the total EU27 output and have exceeded those of both Japan and of the countries in the North American Free Trade Agreement (NAFTA).

Figure 1: The impact of the economic downturn on automotive production – percentage change over previous year



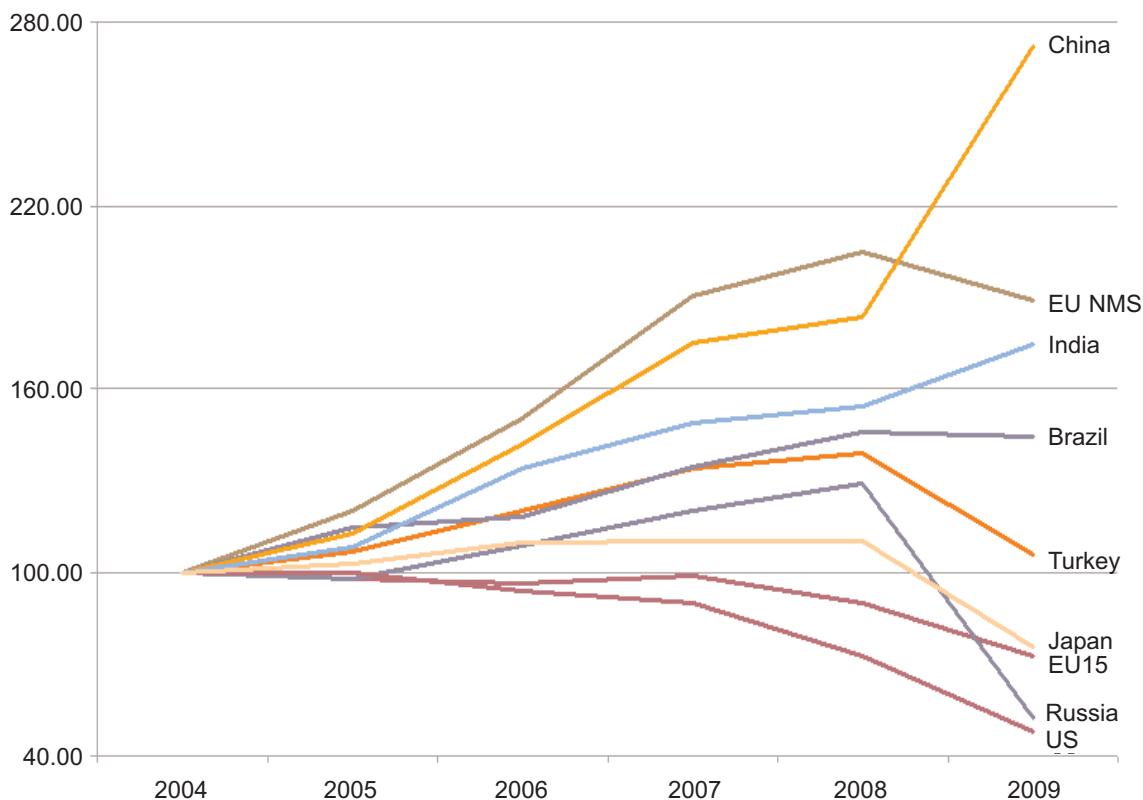
Source: OICA

If a longer-term look is taken at production trends since the early 2000s (Figure 2), two diverging tendencies can be seen – on one hand, the traditional strongholds of the automotive sector (Japan, the EU15 and the US) and, on the other, the emerging players in Europe, Latin America and, particularly, Asia. Indeed, in the first group of regions, the stagnation of production dates back to at least the early 2000s. In the US, production has been actually declining for some time. There has been substantial stagnation in EU15 countries and output had only marginally increased in Japan before the recent dramatic fall. This is probably due to the saturation of markets and emerging overcapacity.

Central and eastern European countries have attracted significant investment in the automotive sector and the European Union's new Member States (NMS) had witnessed a remarkable increase in output, which has been halted and even reversed by the economic crisis. The same can be said for non-EU countries in the region, especially Russia and Turkey, which were selected by a number of European car manufacturers for establishing joint-ventures and partnerships, although growth here was slower. Here the fall in production levels due to the recession has been even more evident: in Russia, output has more than halved compared with 2007, while in Turkey output has dropped by 20%.

Success stories can be found in emerging countries such as India, and especially in China where there was an impressive increase of almost 50% in output between 2009 and 2008. Brazil was also able to resist the recession and maintain its pre-crisis production levels. These are probably the areas where the prospects for market development will remain more positive in the medium-to-long term.

Figure 2: World motor vehicle production 2004–2009 (Index, 2004 = 100)



Source: OICA, different years, <http://www.oica.net/>, accessed on 27 April 2010

Restructuring and internationalisation of the industry

The automotive industry is made up of truly global players. As shown by Table 2, most of the major manufacturers – also known as original equipment manufacturers (OEMs) – have production locations in different areas of the world. This is partly the effect of early development. US-based OEMs established subsidiaries in Europe from the early 1900s onwards, while the same companies and some European OEMs expanded into Latin America mainly after 1945. But a broader and more significant move towards globalisation of the industry has come about in recent decades through numerous developments: the strengthening of production locations in Mexico within the NAFTA region; the creation of Japanese ‘transplants’ in the US and Europe – usually green-field plants established by transnational companies, which bring organisational and human resource management (HRM) practices developed in the home country with them; the

increase of foreign direct investment (FDI) in the automotive sector in central and eastern Europe; and the recent opening up of the Indian and Chinese markets. These trends should be seen in combination with the simultaneous increase of outsourcing in the industry, and the tendency to establish production bases with a tight integration of manufacturers and suppliers, close to the final market so that logistical costs are reduced while models can be more easily adapted to demand.

As traditional markets decline to the benefit of emerging markets, such market shifts will probably further sustain the globalisation of the automotive industry and provide the opportunity for a general reorganisation of production chains and clusters.

Table 2: Passenger car production by major OEMs in 2008 (units)

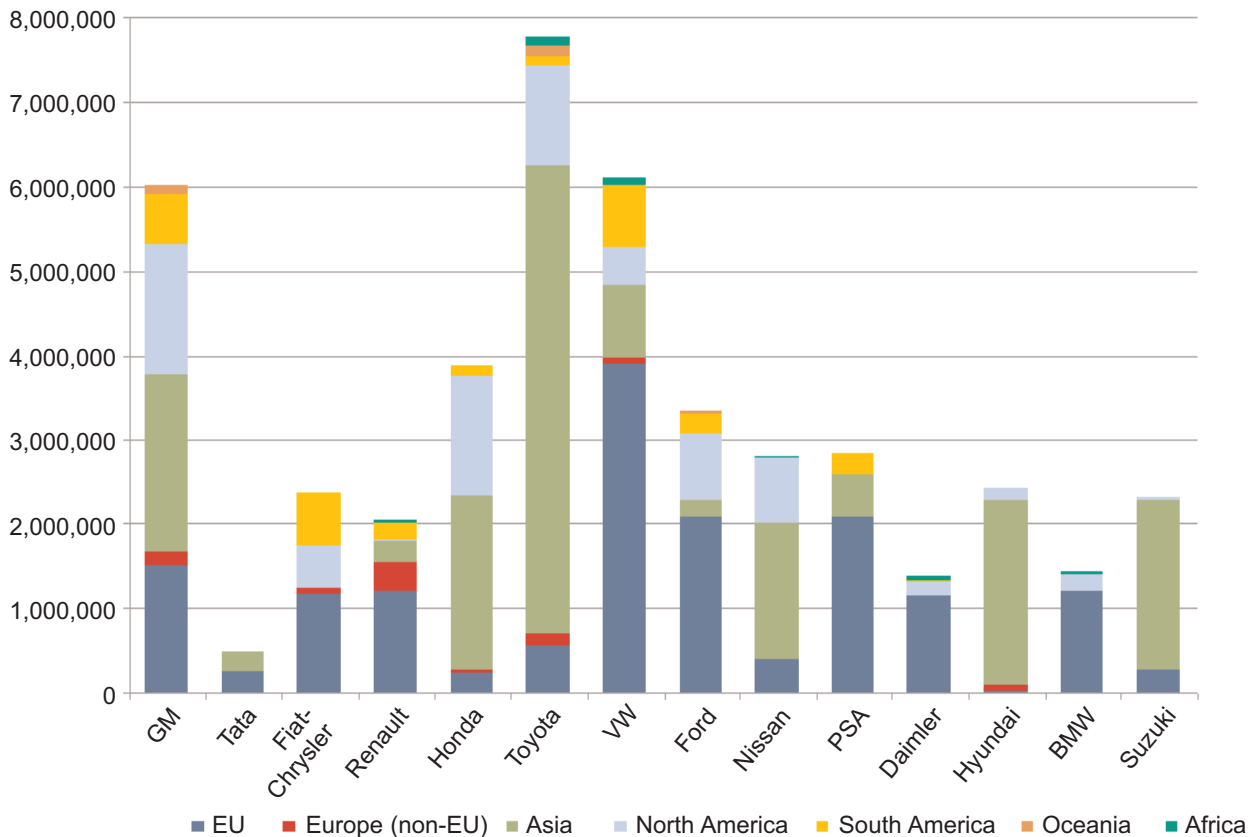
| Group | EU | Other Europe | Asia | North America | South America | Oceania | Africa | Total |
|---------------|-----------|--------------|-----------|---------------|---------------|---------|--------|-----------|
| Toyota | 561,686 | 126,596 | 5,554,476 | 1,207,801 | 92,051 | 141,447 | 84,576 | 7,768,633 |
| GM | 1,510,750 | 160,599 | 2,106,315 | 1,543,624 | 588,442 | 105,527 | - | 6,015,257 |
| VW | 3,896,396 | 62,234 | 871,795 | 449,098 | 738,938 | - | 91,654 | 6,110,115 |
| Honda | 230,423 | 50,065 | 2,044,483 | 1,421,427 | 132,542 | - | - | 3,878,940 |
| Ford | 2,066,468 | - | 208,102 | 793,101 | 242,587 | 36,303 | - | 3,346,561 |
| PSA | 2,076,296 | 9,815 | 506,968 | - | 245,765 | - | 2,040 | 2,840,884 |
| Nissan | 405,598 | - | 1,598,765 | 776,521 | - | - | 7,748 | 2,788,632 |
| Fiat-Chrysler | 1,159,397 | 81,030 | 5,089 | 501,251 | 631,891 | - | - | 2,378,658 |
| Hyundai | 12,042 | 80,960 | 2,189,881 | 152,588 | - | - | - | 2,435,471 |
| Suzuki | 284,875 | - | 2,009,186 | 12,374 | - | - | - | 2,306,435 |
| Renault | 1,202,064 | 334,490 | 263,859 | 8,906 | 207,045 | - | 32,058 | 2,048,422 |
| BMW | 1,221,197 | - | - | 170,741 | - | - | 47,980 | 1,439,918 |
| Daimler | 1,143,214 | - | - | 152,561 | 33,070 | - | 51,246 | 1,380,091 |
| Tata | 258,807 | - | 230,935 | - | - | - | - | 489,742 |

Source: OICA, <http://www.oica.net/>, accessed on 27 April 2010

Figure 2 shows the present differences among OEMs in terms of the distribution of production across large regions. Whereas a certain degree of internationalisation can be found in each case, there are still many large producers that remain essentially concentrated in their area of origin. GM is probably the most global player because it already produces most of its cars outside the US, particularly in Asia through Daewoo and joint-ventures in China. GM also maintains important production locations in Brazil and, of course, Europe. Other internationalised OEMs include Fiat-Chrysler, Renault and Honda. Tata is an unusual case, producing more than half of its passenger cars in Europe because of its recent acquisitions of Jaguar and Land Rover, while maintaining its original core plants in India.

The economic recession has accelerated restructuring and the rebalancing of production across different areas and also provided some opportunities to redefine global partnerships. The best example of this is perhaps the acquisition by Fiat of a controlling minority stake in Chrysler – an initial 20%, which will certainly increase to 35% and possibly to 51%. Other instances include the failed takeover of Opel/GM Europe by a Magna-Sberbank joint venture, or the acquisition of Volvo Cars (formerly owned by Ford) by Geely, an emerging but still relatively small Chinese manufacturer, which ranked tenth in China’s passenger car sales figures in 2009.

Figure 3: Passenger car production of major OEMs by main regions in 2008 (millions of units)



Source: OICA, <http://www.oica.net/>, accessed on 27 April 2010

Other important partnerships were concluded between the end of 2009 and early 2010 and they demonstrate how the present situation is being addressed by motor companies with a new wave of corporate restructuring. Of particular relevance is the deal made in December 2009 by Volkswagen to acquire a 19.9% stake in Suzuki which, in turn, controls Maruti, one of the two major Indian motor companies. Volkswagen's aim is to establish a close long-term partnership with them. Renault concluded a partnership and cooperation agreement in early April 2010 with Mercedes, which envisaged the exchange of between 3% and 5% equity. Similarly, PSA Peugeot and Mitsubishi started to consider ways in which they might consolidate their already established collaboration on a number of projects, including the joint-ownership of a plant in Russia. It has been suggested that PSA Peugeot may acquire a substantial stake in Mitsubishi (30%–50%).

These developments add to a number of partnerships already established: that between Renault and Nissan, with cross-ownership that gives Nissan 44% of Renault, and Renault 15% of Nissan; the controlling stake of GM in Daewoo; the participation of 25% of Renault in AvtoVAZ; the partnership between Ford and Mazda, despite Ford's reduction of its stake in Mazda from 33.4% to around 11% in November 2008, and its current view of the alliance as purely a financial investment – an attitude that demonstrates the changing nature of alliances; and several joint-ventures set up for specific plants and projects worldwide and that involve most OEMs. Of particular relevance among this type of partnership are the joint-ventures established with the major Chinese OEMs by some of the most important global players, such as General Motors (with SAIC), Volkswagen (SAIC and FAW), Toyota (FAW), Hyundai (BAIC), Ford (Chang'an), Honda (Guangzhou), Nissan (Dongfeng), and PSA-Peugeot (Dongfeng). The web of subsidiaries and partnerships is becoming quite dense and this will probably be a key element of future strategies to adapt to shifting markets, overcapacity and new technologies.

The growing importance of emerging countries as production locations is clearly demonstrated by Table 3 and Figure 4, which show the relevance for certain leading OEMs of five of the most important growing economies: Brazil, Russia, India, China and South Africa, the so-called BRICS countries. As mentioned above, these areas have been involved in quite a different way in the recent economic downturn, especially in the automotive sector. Russia has been badly hit by a car production slump, whereas China has seen booming growth. India has had moderate growth, Brazil's production levels are static and South Africa has remained marginal in the global automotive industry.

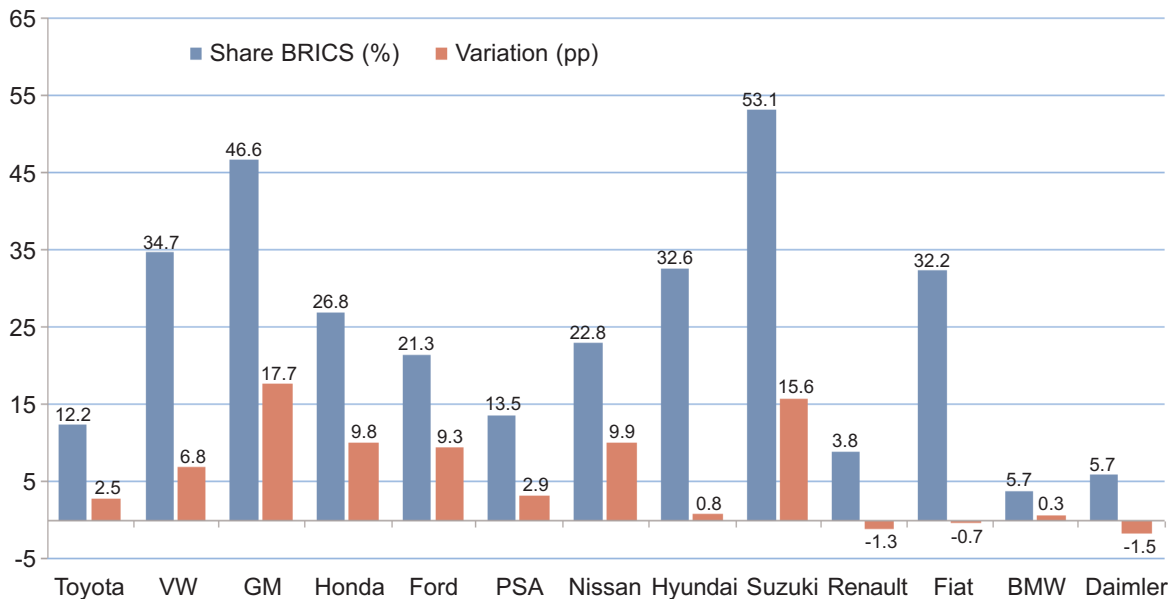
Such divergent trends are reflected in the different results of the world's leading OEMs: those such as GM and VW, which have concentrated their investment in China, have shared in the remarkable growth there, helping to counterbalance somewhat the reductions in advanced economies; other OEMs such as Renault and Fiat, which focused production investment in Russia and Brazil, could not benefit from this effect.

Table 3: *Passenger car production in BRICS by major OEMs, 2009 (number of vehicles)*

| Group | Brazil | Russia | India | China | South Africa | BRICS | World |
|--------------------------|-----------|---------|-----------|------------|--------------|------------|------------|
| Toyota | 63,951 | - | 51,151 | 595,449 | 40,018 | 750,569 | 6,148,794 |
| GM | 742,950 | - | - | 1,243,572 | 59,529 | 2,046,051 | 5,902,583 |
| VW | 490,124 | 23,102 | 65,930 | 1,734,765 | 17,146 | 2,331,067 | 4,997,824 |
| Honda | 135,180 | - | 61,281 | 601,920 | - | 798,381 | 2,984,011 |
| Ford | 241,673 | - | 32,515 | 335,174 | 20,621 | 629,983 | 2,952,026 |
| PSA | 111,132 | - | - | 262,889 | - | 374,021 | 2,769,902 |
| Nissan | 11,921 | - | - | 523,001 | 9,063 | 543,985 | 2,381,260 |
| Hyundai | - | - | 559,620 | 814,852 | - | 1,374,472 | 4,222,532 |
| Suzuki | - | - | 876,115 | 240,547 | - | 1,116,662 | 2,103,553 |
| Renault | 117,814 | 51,394 | 5,827 | - | 4,041 | 179,076 | 2,044,106 |
| Fiat | 607,096 | - | 23,711 | - | - | 630,807 | 1,958,021 |
| BMW | - | - | - | 15 | 46,240 | 46,255 | 1,258,417 |
| Daimler | 15,224 | - | - | 3,588 | 41,400 | 60,212 | 1,055,169 |
| Total major OEMs | 2,537,065 | 74,496 | 1,676,150 | 6,242,402 | 220,158 | 10,750,271 | 40,778,198 |
| Total all OEMs | 2,576,628 | 595,839 | 2,166,238 | 10,383,831 | 222,981 | 15,945,517 | 47,952,995 |
| Percentage of major OEMs | 98.5 | 12.5 | 77.4 | 60.1 | 98.7 | 67.4 | 80.5 |

It is interesting to note that BRICS production already represents between one fifth and one third that of most OEMs. The exceptions are: Toyota, whose main locations remain in the advanced economies; PSA and Renault, which produce mainly in Europe; and the high-end producers BMW and Daimler, whose core production units are still located in Germany. It is expected that the importance of BRICS will consolidate in the next few years as the problems of overcapacity and stagnating demand characterise the business environment in advanced economies.

Figure 4: Passenger car production in BRICS by major OEMs – share in 2009 (%) and change from 2008 (percentage points)



Employment

While trends in employment are obviously influenced by developments in production, short-term changes in employment levels tend to be limited by productivity and efficiency gains, and by labour hoarding. Gains in productivity and efficiency reduce employers' need to hire new workers to cope with increased production levels in times of economic expansion. And, in times of economic downturn, employers engage in labour hoarding, since they anticipate recovery and prefer to avoid redundancy costs and to keep skilled labour. Of course, the ability to increase productivity is linked to technological and organisational developments. And the degree of labour hoarding that a company can afford is closely linked to national institutional frameworks and whether these frameworks offer the means to help companies manage sharp decreases in demand without recourse to massive lay-offs; in the EU, for instance, there is a variety of publicly-subsidised working time reduction schemes.

Table 4 shows how the tendencies in sectoral employment in the different economic regions under review echo the analysis of production levels. The EU15 and the eastern and central European NMS have divergent trends. (Cyprus and Malta do not have significant automotive sectors). While in the EU15 employment in the sector has slowly declined despite the stability of production up until 2007, in the NMS there was a steady increase in employment in the automotive industry. However, it must be stressed that 2008 data are not strictly comparable with previous years due to a series break. Japan's employment figures for the sector closely follow the global production trends, with a significant rise in employment until 2007 and a contraction in 2008. It should also be noted that a significant share of automotive jobs are 'atypical' and are therefore not included in the present figures. It is estimated that 'non-regular workers' account for as much as 30% of employment in OEMs and up to 50% in component suppliers. As explained below, the relative stability of industry employment in a period marked by a remarkable decrease in production can also be explained by the concentration of job losses among those in 'non-regular' employment. In the US, there has been a decline in employment, as in production, since the early 2000s. This trend has dramatically accelerated during the recent downturn, dropping to fewer than 900,000 jobs in 2008 and to some 670,000 in 2009, 60% of the sector's 2003 employment level. In Brazil, the growth of production has been accompanied by a proportionate increase in the number of sectoral jobs.

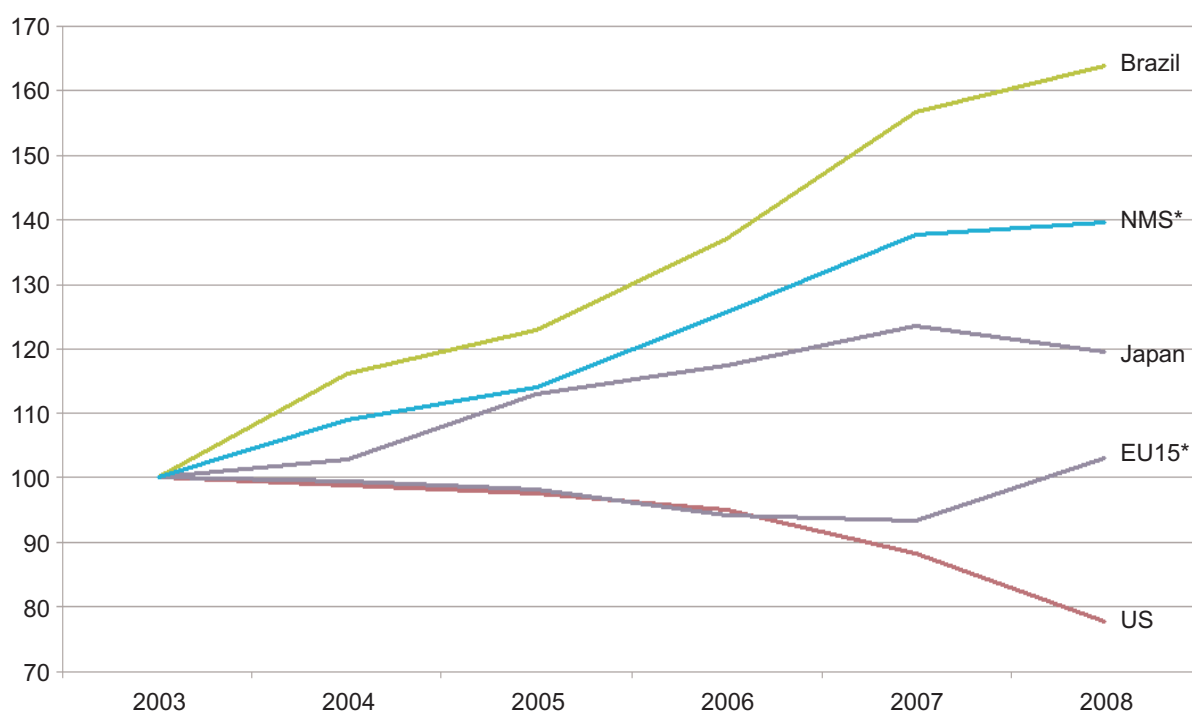
Table 4: *Employment in the automotive industry, 2003–2008*

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2009 |
|---------------|-----------|-----------|-----------|-----------|-----------|------------|
| EU15 | 1,927,659 | 1,918,485 | 1,892,608 | 1,819,148 | 1,800,159 | 1,987,197* |
| NMS | 311,685 | 339,357 | 355,407 | 392,108 | 429,164 | 435,106* |
| Japan | 725,000 | 746,000 | 819,000 | 850,000 | 895,000 | 866,000 |
| US | 1,125,300 | 1,112,800 | 1,096,700 | 1,070,000 | 994,200 | 875,500 |
| Brazil | 273,417 | 317,747 | 335,956 | 374,995 | 427,912 | 447,859 |

Note: * break in series, for 2008; the change to NACE rev.2 makes the figures not strictly comparable with previous years.

Sources: *Japan, Japan Automobile Manufacturers Association; US, US Bureau of Labor Statistics (Current Employment Statistics survey - National); Brazil, EIRO; EU15 and NMS, Eurostat (Structural business statistics).*

Figure 5: *Recent trends in automotive employment, 2003–2008*



Note: 2003, the index = 100;

* break in the series for NMS and EU15; for 2008, the change to NACE Rev.2 makes the figures not strictly comparable with previous years.

Sources: *Japan, Japan Automobile Manufacturers Association; US, US Bureau of Labor Statistics (Current Employment Statistics survey - National); Brazil, EIRO; EU15 and NMS, EUROSTAT (Structural Business Statistics).*

The global automotive sector amid recession

The European Union

The European Union is a major player in the global motor industry, accounting for about 25% of all vehicle manufacture (Table 1). The core of Europe’s automotive industry is in those countries that played a major role in the early developments of the sector. Germany is by far the EU’s biggest producer of motor vehicles (Table 5). In 2007, when vehicle manufacture and sales peaked worldwide, Germany alone produced around a third of all vehicles made in Europe. Three quarters of Europe’s overall output was manufactured in 2007 by the EU’s five major vehicle producers – Germany, France, Spain, the UK and Italy, each making more than one million vehicles.

Yet between 2005 and 2007, jobs and production in the sector were already beginning to shift from western Europe to central and eastern Europe. While vehicles produced there accounted for less than 10% of Europe's overall output in 2004, by 2009 central and eastern European countries were producing one fifth of the EU's total output (Table 1). However, Germany has shown its strength in this sector, being the only one of the five major vehicle-producing countries to have increased production levels and cut relatively few jobs between 2005 and 2007. In the same period, output has been reduced by 15% in France and by around 10% in Belgium.

Table 5: *The automotive industry in the EU, 2007, and variation 2005–2007*

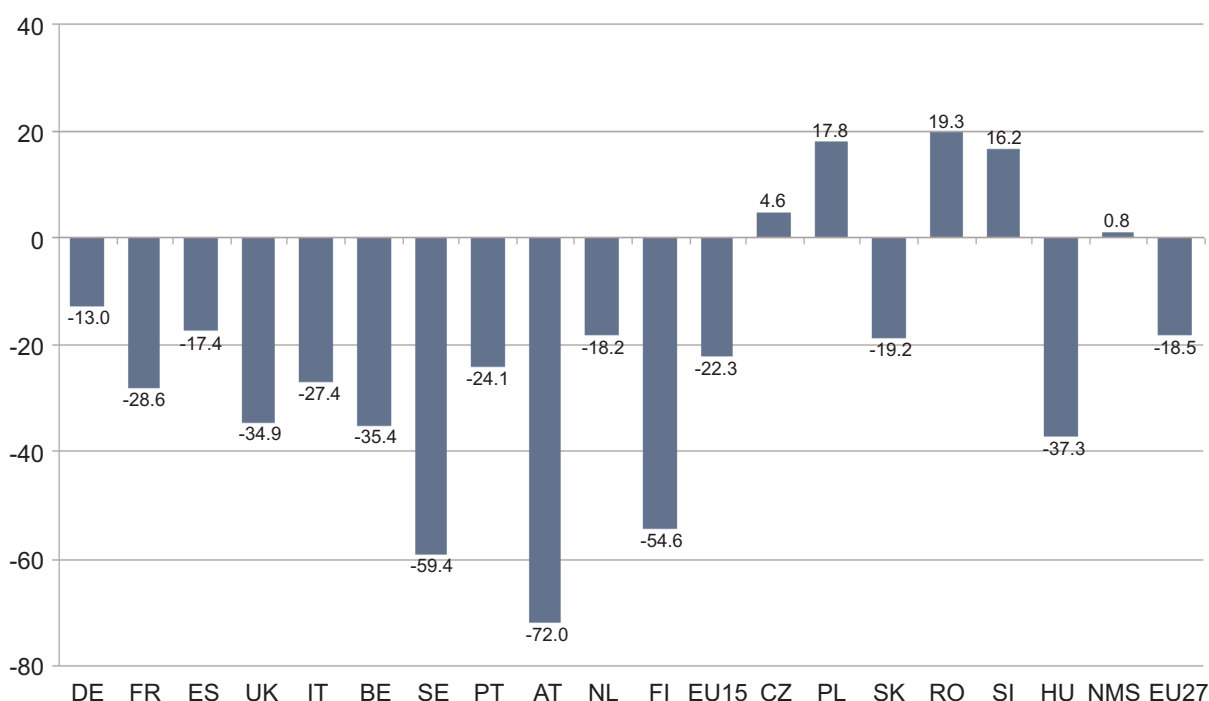
| | Number employed (2007) | Number vehicles produced (2007) | Number cars produced (2007) | Change in employment, 2005–2007 (%) | Change in vehicle production, 2005–2007 (%) | Change in car production, 2005–2007 (%) |
|----------------|------------------------|---------------------------------|-----------------------------|-------------------------------------|---|---|
| Germany | 847,925 | 6,213,460 | 5,709,139 | -2.2 | 7.9 | 6.7 |
| France | 254,916 | 3,015,854 | 1,284,312 | -7.5 | -15.0 | -18.1 |
| Italy | 169,217 | 1,284,312 | 910,860 | 1.6 | 23.7 | 25.5 |
| United Kingdom | 165,946 | 1,750,253 | 1,534,576 | -13.9 | -2.9 | -3.9 |
| Spain | 155,057 | 2,889,703 | 2,195,780 | -3.0 | 5.0 | 4.7 |
| Poland | 135,161 | 784,615 | 695,000 | 24.7 | 28.0 | 28.7 |
| Czech Republic | 121,936 | 937,648 | 925,060 | 17.2 | 55.7 | 55.0 |
| Sweden | 85,326 | 366,020 | 316,850 | -0.3 | 7.9 | 9.8 |
| Romania | 63,571 | 241,712 | 234,103 | 4.5 | 24.1 | 34.1 |
| Hungary | 56,009 | 292,027 | 287,982 | 30.5 | 92.1 | 93.9 |
| Belgium | 44,829 | 834,403 | 789,674 | -5.3 | -9.9 | -11.8 |
| Slovakia | 34,126 | 571,071 | 571,071 | 46.5 | 161.5 | 161.5 |
| Austria | 33,850 | 228,066 | 199,969 | 1.7 | -10.0 | -13.2 |
| Slovenia | 10,050 | 198,402 | 174,209 | 20.4 | 11.5 | 25.9 |
| Portugal | : | 176,242 | 134,047 | | -20.3 | -2.6 |
| Netherlands | 22,857 | 138,568 | 61,912 | 0.7 | -23.3 | -46.2 |
| Finland | 7,071 | 24,309 | 24,006 | 2.8 | 12.3 | 13.1 |
| Denmark | 6,711 | - | - | 7.7 | | |
| Norway | 4,788 | | | -0.1 | | |
| Ireland | 3,582 | - | - | 6.6 | | |
| Bulgaria | 2,906 | - | - | -13.9 | | |
| Greece | 2,872 | - | - | 1.5 | | |
| Estonia | 2,393 | - | - | 15.2 | | |
| Lithuania | 1,427 | - | - | 60.0 | | |
| Latvia | 1,334 | - | - | 39.8 | | |
| Cyprus | 251 | | | -0.8 | | |
| Luxembourg | : | | | | | |
| Malta | : | | | | | |

Source: Eurostat (<http://epp.eurostat.ec.europa.eu/>, data retrieved on 30 January 2010) and European Automobile Manufacturers' Association (ACEA) (<http://www.acea.be/>, data retrieved on 24 February 2010)

The changes in the distribution of production across European countries are part of the automotive sector’s globalisation of production, and they reflect two distinct trends in manufacturing strategy: the search for cheaper skilled labour, and a shift towards new or emerging markets. Combined with the reorganisation of the major automotive groups through sales and acquisitions and the establishment of partnerships and joint ventures, this has resulted in OEMs being widely distributed both throughout Europe and outside it (Figure 2).

The current economic downturn has hit every part of the automotive sector hard. Compared with 2007 levels, almost all countries show a significant drop in production volumes. It is interesting to note that only a handful of countries have been spared – the two largest and best-established central European producers, the Czech Republic and Poland, and the two smallest emerging ones, Slovenia and Romania, where 2009 figures may show that production has overtaken Hungary’s. Slovakia and Hungary seem to have been severely hit by the recession.

Figure 6: Change in production volumes for passenger cars, 2007–2009 (%)



Source: ACEA, <http://www.acea.be/>

Despite the significant fall in production, the impact of the present economic downturn on employment levels remained in general relatively limited, especially in countries where tools are available to manage short-term variations in demand, such as short-time working in Germany (kurzarbeit), partial unemployment in France (chômage partiel), the wage guarantee fund in Italy (Cassa integrazione guadagni) and the Employment Adjustment Procedure (Expediente de Regulación de Empleo) in Spain. In these cases, employers – often jointly with trade unions – can cushion the immediate effects of diminishing sales and output. By using the various forms of reduced working hours allowed for by national legislation or collective bargaining, most of the OEMs have been able to limit redundancies in the core labour force. Indeed, many company collective agreements deal with just this issue and often include a commitment to preserve employment. In France, this has also been part of an agreement with the government concerning broad sectoral interventions. However, the reduction in fixed-term and temporary agency employment has been widespread and has been reported in many countries including France, Italy, and Slovakia. In some cases, voluntary departures backed by economic incentives to relinquish jobs have provided further scope for employment adjustments. Of course, the

cushioning effects of fleet-renewal bonuses in some European markets has to be taken into account, and without them it is possible that reorganisation and restructuring would have gone much further.

Industrial relations

The automotive industry is a central component of the manufacturing sector. For much of the 20th century it consisted of very large vertically-integrated producers with plants often employing thousands of workers. Generally, the industry had well-established industrial relations with collective bargaining agreements and widespread union representation. The ‘de-verticalisation’ of production of recent years has eroded bargaining coverage through restructuring, downsizing, increased outsourcing, and the shifting of production into locations where trade unions are traditionally weaker, such as central and eastern Europe. Patterns of union representation and collective bargaining are increasingly influenced by the choices of OEMs about which parts of the manufacturing process to outsource and where production units should be located. However, despite the increasing fragmentation of industrial relations and the globalisation of production, the role of industrial relations and trade unions remains important especially within OEMs. For instance, union membership in the automotive sector, in the EU and elsewhere, is almost always higher than in the manufacturing sector as a whole and the national average.

Of course, levels of union membership depend on a nation’s industrial relations system, and in the EU, levels range from some 90% of the workforce in Sweden to around 20% in France, and even less in some eastern European countries. The prevalence of company-level bargaining in certain cases, such as in the UK and in central and eastern European countries, can fragment collective representation, but also reinforces the relative strength of industrial relations within each company, particularly the larger ones. Sometimes the key role of OEMs has favoured the emergence of company unions. This has happened, for instance, in Hungary, France and Italy (Pedersini, in press).

Collective bargaining is widespread in the automotive sector, particularly within OEMs. All the major companies have well-established company-level bargaining, which in many cases supplements industry-wide agreements such as those covering the metalworking sector. Some exceptions are the UK and Hungary where there is no sectoral bargaining, and Spain – where the major OEMs have their own company agreements. In Spain, this is also true of the large first-tier suppliers, while the SMEs producing components are usually covered by relevant industry-wide agreements at provincial level.

The importance of the presence of unions in the main automotive companies has put industrial relations at the centre of restructuring in many EU countries. Between 2008 and 2009, all automotive companies had to introduce specific measures to address the fall in demand. In France, the framework for company-level adjustments was set by the ‘Automotive Pact’ signed in 2009 by the Automobile General States (*Etats généraux de l’automobile*, which united the social partners and the government) and by a renovation of the partial unemployment scheme. The Automotive Pact included the provision of €6.5 billion of low interest public loans to provide Renault and PSA Peugeot with a credit line of €3 billion each, and to establish a Modernisation Fund for Automotive Suppliers (*Fond de modernisation des équipementiers automobile*, FMEA). Access to the €6.5 billion credit line has been linked to commitments to maintain employment levels, invest in ‘green’ technology and strengthen cooperation with automotive suppliers. As for partial unemployment, in April 2009, faced with the economic downturn, the government improved conditions for workers and raised reimbursement levels for employers, introducing particularly favourable conditions for the automotive sector. Collective bargaining at sectoral and company-level has developed out of this framework. In March 2009 a special agreement, ‘A social contract for the crisis’, was signed by Renault’s management and four union organisations: CFDT, CFTC, CFE-CGC, and CGT-FO (CGT did not sign). The agreement introduced new rules for implementing the partial unemployment scheme, and aimed to ensure full pay for workers on partial unemployment. In April 2009, the PSA Peugeot management and five union organisations (CFDT, CFTC, CFE-CGC, CGT-FO and GSEA – again without CGT) agreed a 100% salary guarantee for workers in partial unemployment for up to six months. During that time,

workers would be offered formal training to improve their employability. The initiative was to be financed jointly from unemployment insurance, the government and the company. In July 2009, the company management and all six trade unions signed a further agreement to pay 90% of the wages of workers on partial unemployment without any time limit. If workers agreed to forgo annual leave, they could receive 100% of their usual wage. Under this agreement, the company also committed itself to guaranteeing employment security for at least twice as long as the duration of partial unemployment.

In Germany, 70% of companies in the automotive sector have used short-time working schemes. Such schemes require a works agreement and often include other measures such as the activation of the hardship clauses in the industry-wide agreement. At company level, an important cost-cutting agreement was reached at Daimler in late April 2009 (DE0905039I).¹ Daimler had been severely hit by the economic downturn as sales of premium cars and commercial vehicles and coaches dropped considerably. Year on year, Daimler sales decreased by 22% in the first 10 months of 2009. As explained earlier, commercial vehicle market segments could not benefit from fleet-renewal schemes and scrapping incentives. The works agreement of April 2009 secured a number of concessions from workers' representatives in exchange for a limited job security guarantee. The deal delivered labour cost savings of €2 million. Details of the scheme included: the reduction of all employees' working time by 8.75% without compensation; reduction of the short-time allowance from 100% of normal net pay to between 80.5% and 93.5% (depending on plant location and each individual's short-time working hours); the postponing of a number of pay increases, including those agreed across the sector at the end of 2008 (DE0812049I); and the suspension of a €1,900 bonus from the 2008 Daimler profit-sharing scheme. The company guaranteed job security until the end of 2009. Further job security until June 2011 was guaranteed for employees hired before 2004 in line with a previous cost-cutting works agreement (DE0408102N).

In Hungary, most of the major automotive companies were able to avoid mass lay-offs for the whole of 2009. The exceptions were Suzuki, which dismissed 1,200 workers, and small components suppliers employing unskilled labour that could easily be rehired once the recession was over. Redundancy is generally used as a last resort in Hungary, companies preferring to reduce working time by – for instance – extending the summer or Christmas breaks, as at the Audi and GM-Opel operations, and by dispensing with temporary agency work and fixed term contracts, in-sourcing as much work as possible. As the economic recession has deepened, the most common response has been a reduction in working time, often without compensation. Hungarian trade unions generally put job security before income security and, despite some criticism from workers in certain cases, company unions have often cooperated with various cost-reduction measures, possibly because their position has been weakened by the recession.

In Sweden, the role of industrial relations and collective bargaining in supporting reorganisation and protecting Swedish workers in the automotive sector has been particularly important since 2008. Job losses and restructuring have affected both OEMs and component suppliers. However, cost-cutting measures and the implementation of a collective agreement on temporary layoffs are thought to have saved thousands of jobs. In particular, the 2009 sectoral agreement signed by IF Metall on temporary layoffs has been particularly important (SE0903019I). Other unions criticised the agreement, fearing an erosion of wage levels. IF Metall has strongly defended the initiative, insisting that it was only meant as a temporary measure until March 2010; the union has ruled out any extension of the measure, even if employer associations campaign for its routine use as a tool to support company restructuring.

¹ The text contains references (such as DE0905039I) to records on the EIRO website; these provide more detailed information on the issues in question. They can be accessed at <http://www.eurofound.europa.eu/eiro> by simply entering the reference into the 'Search' field.

Among the many companies that have used these temporary layoffs are a number of automotive companies. Volvo Cars, for instance, signed an agreement immediately after the sectoral agreement was finalised in March 2009 (SE0903019I). The scheme proved more controversial at Scania, where unions tried to insist on savings being made through a reduction in shareholder dividends. This was not successful and the unions balloted workers who largely favoured an agreement on temporary layoffs. This was signed shortly afterwards (SE0906019I).

In the UK, many collective agreements have tried to address the impact of the economic downturn with measures mainly intended to reduce working hours and labour costs. Reorganisation started early at Jaguar Land Rover, resulting more from the company's acquisition by the Tata Group of the former Ford subsidiaries (UK0804039I), than from the recession. To cope with financial and liquidity problems following the take-over, the company cut 2,500 jobs using a mix of voluntary redundancy, termination of temporary-agency work contracts, and layoffs. Nissan soon followed suit and announced a cut of 1,200 jobs. In both cases, despite trade union concerns, union officials have collaborated with company managers to limit the effects of the crisis on production and employment.

In addition to jobs lost because of changes in company structures, a number of deals introduced ways of reducing working hours to respond to the fall in demand. Ford, for instance, brought in temporary lay-offs and a reduced working week at its Bridgend engine factory. It also launched a voluntary redundancy programme to reduce the workforce at its Southampton van plant. At the Mini plant in Cowley, weekend shifts were stopped. Toyota negotiated a collective agreement to cut working time and wages by 10% until March 2010. Honda closed its Swindon factory between January and April 2009, laying workers off on full pay for the first two months and on 60% pay for the following two. When a voluntary redundancy scheme failed to attract the necessary 500 applicants, Honda also negotiated agreement for a temporary 3% pay cut over 10 months. In April 2009, the unions and the Jaguar Land Rover company management agreed on a four-day week and a wage-freeze in exchange for a two-year job security agreement.

In Italy and Spain, the role of industrial relations in addressing the impact of the economic downturn has been relatively limited and has mainly concerned participation in the activation of the public short-time adjustment schemes, the wages guarantee fund (Cassa integrazione guadagni) in Italy, and the employment adjustment procedure (Expediente de Regulación de Empleo) in Spain. In Italy, the main instrument used to cope with the economic recession so far has been the ordinary wage guarantee fund, an income support measure that can be used by companies –with the agreement of unions – to cope with seasonal or recession-triggered decreases in demand or with unexpected difficulties which interrupt production, such as damage caused by bad weather. In the automotive sector, short-term management of the recession's impact has largely been achieved through use of the ordinary wage guarantee fund, which only requires 'implementation agreements' and not detailed negotiations with the trade unions. It is quite easily accessed and is little more than an administrative process. Within Fiat's Italian operation, it involved around 22,000 of its 80,000 workers during 2009.

In Spain, the impact of the economic crisis was felt relatively early in 2008 and has been particularly severe. The government started talks with social partners and sectoral trade associations at the end of 2008, which culminated in the creation of the 'Comprehensive Plan for the Automotive Industry' announced by government at the beginning of 2009. This included a fleet renewal plan – 'Vive' II – funded through a European Investment Bank (EIB) credit line. With a decline in car sales of around 40% since 2007, and even steeper declines for commercial vehicles and buses, the employment adjustment procedure (ERE) for temporary lay-offs has been widely used instead of terminating contracts. This procedure, which must begin with consultation with the workers' committee, allows the company to reduce the labour force temporarily. All OEMs used the temporary ERE scheme, applying it to approximately 43,000 workers in 2009, with the exception of the VW Navarra plant producing the new Polo, which had been launched in 2009 and was able to benefit from the fleet-renewal schemes introduced across Europe. In the component sector, more than 300 companies took advantage of the ERE on behalf of more than 60,000 workers. Around 5,000 jobs were lost in 2009, mainly through the termination of temporary contracts.

Government support measures

Public support for the automotive sector has been channelled through different levels and by different means. It is possible to distinguish between national, regional and European levels of support. A key intervention in this phase has been the support of governments in sustaining market demand through fleet-renewal schemes, which have been introduced in many countries including France, Germany, Italy, Spain and the UK. The impact of such intervention has been remarkable in certain cases: in Germany, for instance, registration of new cars increased by more than 20% in 2009 compared to 2008 (Pedersini, in press).

Other actors have given direct help to companies on the supply side. This has happened both at national and European level, and sometimes at sub-national levels. This kind of support has taken the form of credit, guarantees, or loans at special rates offered not just by national governments but also by parties such as the EIB or the European Commission through the European Globalisation Adjustment Fund (EGF). Whereas such loans can help companies to address short-term financial difficulties, most of these credit lines are clearly linked to longer-term objectives such as the ‘Clean Transport Financial Facility’ of the EIB.

Interestingly, national loans usually include clauses insisting on the preservation of employment levels or working conditions. The EGF, which is administered by the Directorate-General for Employment, Social Affairs and Equal Opportunities, is specifically intended to ‘support workers who lose their jobs as a result of changing global trade patterns so that they can find another job as quickly as possible’.²

The US

The US is certainly one of the most important locations for the automotive sector worldwide, both for production and for sales. Detroit, Michigan, has been long the symbol, if not the centre, of the world automobile industry. The so-called Detroit Three – GM, Chrysler and Ford – were the core of the national manufacturing industry, while one (GM) has been the most important global player in the industry throughout recent decades. Motor OEMs were also an almost unrivalled domestic stronghold of collective representation and bargaining.

Most of these features have changed in the last decade or so, well before the impact of the recent economic downturn, which has – possibly – represented the bottom of the recent decline. First, the traditional US-based industry has experimented with a significant cutback in both production and employment. Total employment in the automotive sector, including assemblers, manufacturers of bodies and engines and suppliers, has almost halved since 2000, down from about 1.3 million jobs to slightly fewer than 650,000 in July 2009. Production levels have also been significantly reduced from around 12 million vehicles in the early 2000s to fewer than nine million in 2008 and even fewer in 2009. In the meantime, GM was overtaken by Toyota as the world’s leading automotive manufacturer in 2008. The domestic industry has also changed with the establishment and consolidation of foreign-owned OEMs and the spin-off of component suppliers from the main players. Delphi and Visteon were transformed into independent companies and later sold in the 1990s by GM and Ford respectively. These developments had an impact on industrial relations too: the new foreign-owned companies were usually located outside the traditional and highly unionised automotive cluster in Michigan, since they preferred to establish their green-field plants in the southern states of the US and often pursued union-free HRM strategies even if they had a tradition of labour-management cooperation in their home countries. At the same time, the dense network of suppliers, which emerged from the reorganisation of the main OEMs has lower unionisation levels and a lower incidence of collective bargaining.

² European Commission’s web page on the EGF <http://ec.europa.eu/social/main.jsp?catId=326&langId=en>

Industrial relations and collective bargaining

Since 2003, the unionisation rate in the motor industry has declined from slightly more than 30% to less than 24%, a level that remains more than twice the general union density in manufacturing and the private sector, but which signals a substantial erosion of the union presence. The most important union in the sector is the United Automobile, Aerospace, and Agricultural Implement Workers of America, also known as the United Auto Workers (UAW). In certain plants and bargaining units within workplaces, employees are represented by other unions, such as the International Association of Machinists and Aerospace Workers of America, the United Steelworkers of America, and the International Brotherhood of Electrical Workers, covering certain plant locations or specified trades in the industry. Despite the fall in union membership and density, UAW managed to remain an important player in the Detroit Three, partly because it had become an important shareholder through its Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare obligations. As will be discussed later in this report, the core of recent negotiations over reorganisation and restructuring has centred upon retirement benefits because these were placing an ever-increasing burden on company finances.

The drop in sales linked to the recent economic downturn put great pressure on the US automotive industry. While sales before 2008 remained quite stable at around 16 million vehicles, they fell to 13 million in 2008 and some 10 million in 2009. The economic and financial situation of GM and Chrysler had been difficult for some time because of high production costs and unimpressive market results: earnings for the Detroit Three fell below 50% of market in 2008. Both GM and Chrysler eventually filed for bankruptcy in 2009, while Ford survived thanks to a decisive cost-cutting collective agreement signed in February 2009. While GM and Chrysler both filed for bankruptcy, they followed different paths thereafter; GM was bailed out by the US government, which took a majority stake in the new company; Chrysler, meanwhile, also received government support, but the controlling stake was taken by Fiat. Fiat's objective was to consolidate its global position but in both cases, as with Ford, industrial relations and collective bargaining played a crucial role in putting the two companies back into sustainable economic and financial viability.

In general, collective bargaining in the automotive sector follows a traditional structure of pattern bargaining at national level involving the major automotive domestic players;³ the first agreement between workers and management at one of the Detroit Three is used as the basis for negotiations at the other two. Pattern bargaining was traditionally confined to the Detroit Three, but was later extended to Delphi and Visteon after they were separated from their parent companies. Indeed, the agreements about the separation of the two supply companies included a number of obligations on the part of GM and Ford, which significantly intertwined industrial relations with those of the parent companies. In the summer of 2009, GM bought back four US-based Delphi components operations and Delphi's global steering business.

The general effects of the financial crisis, coupled with the economic and financial difficulties of the three major domestic assemblers and of GM and Chrysler, in particular, led to a significant revision of the collective agreements that had been reached in 2007, and to the modification of the health protection fund for the industry's retired workers, the Voluntary Employee Beneficiary Association agreements.

The three reorganisation agreements signed in 2009 followed traditional pattern bargaining, with Ford taking the lead. In 2009, The US government put significant pressure on negotiations when it declared that further aid to automotive companies would be conditional on the resolution of collective agreements, which would put the companies on a sound financial footing. This intervention heavily influenced bilateral negotiations at the bargaining table.

³ 'Pattern bargaining is a process in labour relations, where a trade union gains a new and superior entitlement from one employer, and then uses that agreement as a precedent to demand the same entitlement or a superior one from other employers.' (Wikipedia)

One aspect of discussions about the revision of the 2007 collective agreements that played an important role was the objective of making labour costs competitive with the non-unionised US locations of foreign OEMs. Concessions agreed in this round of collective bargaining included lower wages for newly hired workers, a cut in benefits such as paid holidays and cost of living allowances, lower future wage increases, a reduction in the number of union appointees, lower child care assistance, less funding for the worker's retirement healthcare scheme VEBA – with an option for the company's contributing up to 50% of the total amount due in equity (its own shares) rather than cash– and lower optical and dental retirement coverage.

The agreements were ratified by union members, albeit by a narrow margin. The reduction in costs – which also included the retirement of many senior workers – allowed the sourcing of new production in the US and halted the threat of delocalisation and offshoring. It must be underlined that demands for further concessions have continued at both national and plant levels, and include requests for changes to work rules, job classifications, overtime scheduling, alternative work schedules and subcontracting.

The role of government intervention

The role of the US government in the management of the crisis in the automotive sector was particularly important, essentially providing financial resources to accompany the bankruptcy and restructuring processes at Chrysler and GM. It provided significant funds to both Chrysler and GM and these were later mostly converted into equity. In the case of Chrysler, the government backed the strategic alliance with Fiat, which was seen as the only viable option to secure Chrysler's survival. Fiat acquired a 20% stake in the new Chrysler with options to increase its stake to 51%.

The first economic support package to bail out Chrysler and GM was finalised by President Bush because Congress did not take action in the first months of recession. When the new administration took office, President Obama set up an automotive task force to assess and examine the crises at GM and Chrysler. Eventually both companies received support totalling €56.8 billion (USD 80 billion).⁴ When the new companies were established in summer 2009, most of the aid was converted into equity making the US Treasury the major GM shareholder with a 60% holding, and a minority shareholder in Chrysler with 10%. The VEBA owns almost 20% of GM and 70% of Chrysler.

In addition to federal aid, motor companies received support from individual states. In particular, GM's decision not to take production from Lake Orion, Michigan to South Korea was the result of the combination of economic incentives granted by Michigan State, the federal government support scheme and the new employment and working conditions introduced by the amendments to the 2007 collective agreement.

Another important government intervention, similar to the various fleet-renewal schemes introduced in Europe, was the Consumer Assistance to Recycle and Save (CARS) Act of 2009, better known as the 'cash for clunkers' programme, which granted an individual economic incentive of up to €3,218 (USD 4,500) to replace old vehicles. The budget assigned to the programme was initially €715,108,000 (USD 1 billion) and the reference period was from 1 July 2010 until to 30 November 2010. The unexpected success of the programme and the amount of requests received made the Congress vote an additional €1,430,220 (USD 2 million) budget in early August. Despite this, the scheme had to be closed at the end of August. Overall, the scheme supported the replacement of almost 680,000 vehicles, of which 401,000 were cars, 275,000 light commercial vehicles and 2,000 heavy commercial vehicles. It was estimated that the programme increased gross domestic product (GDP) by between €2.71 billion (USD 3.8 billion) and €4.7 billion (USD 6.8 billion) and saved or created more than 60,000 jobs. According to the CARS report to Congress, of the sales benefiting from the programme, the share of domestically manufactured vehicles was 49% (NHTSA, 2009).

⁴ The USD to euro conversions were correct as of October 2010.

Japan

Japan has a strong automotive sector based on large groups of companies, which traditionally include component suppliers and sale companies clustered around the OEMs. Such groups are established by means of capital ownership, business alliances and partnerships. Between 2006 and 2008, the Japanese automotive industry remained the world leader in production levels. However, the economic recession, which started in the second half of 2008, put the sector under strain. Japanese companies have significantly reduced output. Both the domestic market and exports have been affected by the economic downturn: in March 2009, domestic sales and exports were down by 11.5% and 17.2% respectively compared with the previous year. There has been some restructuring in the sector, but no major reorganisation. The number of non-regular workers has been significantly reduced, however. For instance, the number of temporary employees at Toyota in March 2009 dropped by 20% in the first phase of the recession compared with March 2008.

Industrial relations and collective bargaining

The traditional Japanese model of company-level unions is well established in the automotive industry and in most cases 'union shop' agreements make union membership mandatory for all employees covered by trade union law – all regular employees excluding fixed-term employees, temporary agency workers and part-time workers. Unions in companies belonging to the same business group form a single federation. Such group federations are then affiliated to the Confederation of Japan Automobile Workers' Unions (JAW). Unions in the supplier companies that are not already part of the assemblers' groups form a separate Federation of Autoparts Manufacturing Workers' Unions, and this is affiliated to the JAW. The JAW is made up of 12 federations of company unions representing 1,120 unions and 757,000 members. The largest of these unions is the All Toyota Workers' Unions, which includes 40 company unions in manufacturing and 185 company unions in sales, with a total membership of 308,000 workers.

The main companies operating in the automotive sector in Japan are affiliated to the Japan Automobile Manufacturers Association (JAMA), which is both the trade and employer association of manufacturers. Since JAMA groups together the main 14 assemblers, membership density is thought to be close to 100%. There are separate associations for suppliers (Japan Auto Parts Association), vehicle body manufacturers (Japan Auto-Body Industries Association) and sales (Japan Automobile Dealers Association), which similarly act as both employer and trade associations. However, it should be stressed that since there is no national or collective bargaining in Japan, their role as employer organisations is rather limited.

The JAW and the JAMA engage in talks about general conditions in the sector, but this does not involve collective bargaining. Collective bargaining, according to the Japanese model, takes place at company level, within the rather loose coordination of the so-called 'spring offensive' (Shunto), which includes consultations between the industries' union federations and employer associations on wage increases. Such consultations are then further developed at group level between union federations and group management. The actual negotiations eventually take place at company level in the final stage of this three-level consultation system.

In light of the economic downturn, the emphasis was put on employment security and trade unions agreed to overtime restrictions and temporary layoffs to preserve jobs. However, so far, no major negotiations have focused on managing recession since the measures have been introduced in the framework of existing agreements and through participation at company and workplace level.

The government initiatives

The Japanese government introduced a number of measures to help the automotive sector indirectly. This included the so-called 'eco-car subsidy' – economic incentives to buy either hybrid cars or those with better environmental performance – and a reduction in tax on newly bought environmentally-friendly vehicles for three years starting in 2009. The eco-car subsidy accounted for around 10% of new car purchases between April 2009 and March 2010.

Other more general measures provided new resources to finance both temporary layoffs, with the introduction of a higher subsidy and less strict eligibility clauses, and active employment policies. An important additional instrument to cushion temporary workers from the effects of job reductions was the special programme to provide income security for temporary agency workers who remain unemployed after the end of their assignments at the user company.

The measures are thought to have had substantial effects both on the domestic car market and on employment levels. The subsidy and tax reductions have encouraged both domestic sales and the redirection of investment towards the development of new environmentally friendly vehicles and technologies, especially hybrid ones. The enhanced system to support temporary layoffs, according to one estimate, could save some 700,000 jobs.

Brazil

The automotive sector was at the centre of the import substitution strategy launched by President Juscelino Kubitschek in the 1950s. The growth of the motor industry was achieved through high trade barriers, the establishment of foreign car makers and a vast programme of infrastructure development, which put roads at the centre of the Brazilian transport system. The automotive sector has remained crucial for the economy and today accounts for almost a quarter of manufacturing GDP and some 5.5% of the overall GDP. As a result, the Brazilian motor industry is by far the largest in Latin America, representing more than 80% of total output.

The Brazilian automotive sector is made up of more than 20 manufacturers of cars, trucks, buses and tractors employing around 110,000 workers in 2008. All the main global players have plants in Brazil. Particularly important are Volkswagen, Fiat and General Motors, together accounting for the production of more than two million vehicles in 2008. Brazil first developed the technology for the use of ethanol as fuel in the 1970s and nowadays around 70% of all vehicles produced in Brazil are equipped with so-called 'flex' engines, which can use petrol and ethanol in any proportion. The component sector is also important in Brazil and in 2008 employed some 225,000 workers.

Just before the crisis developed in the last quarter of 2008, Brazil's automotive manufacturers were expecting a substantial increase in output and had expanded their employment levels using fixed-term employment contracts. The rapid slowdown of the economy and of both the domestic and worldwide motor markets threatened the sustainability of the employment expansion. Both industrial relations and government intervention were critical in addressing the situation and overcoming the initial difficulties. Indeed, production volumes in the car industry were not affected by the recession although the situation has proved far more critical in the component sector; this was as a result of changes in the exchange rate, which made imported components more competitively priced than those produced domestically.

Industrial relations and collective bargaining

In Brazil, industrial relations are based on sectoral (or occupational) bargaining and no union representation is usually recognised at company level. Collective bargaining typically takes place at regional or subregional levels. The automotive sector is a major exception in this respect as, in the main manufacturing locations in the São Paulo metropolitan area (usually known as ABC, after the names of the three neighbouring cities of Santo André, São Bernardo do Campo, and São Caetano do Sul), there are broad representation and collective bargaining rights. This is the area where the automotive sector was originally established in the 1950s, within a manufacturing base that was already quite well developed. The metalworkers' union was established here in the 1950s. In the 1970s, it became the leading trade union in Brazil and was a prime mover in the establishment of the trade union confederation Central Única dos Trabalhadores (CUT).

The metalworkers' unions of the ABC region participated in the movement against Brazil's military regime, and the strikes called by the union in the late 1970s played an important role in the movement towards the restoration of democracy in Brazil. Apart from their political objectives, these strikes were directly aimed at gaining recognition at

company level. Eventually the union succeeded in establishing works councils in the ABC region, which as a result has developed its own model of industrial relations. It is important to note that in the automotive sector this model essentially involves the OEMs, while component suppliers mostly follow the standard model of representation and collective bargaining at sectoral level. In the metalworking sector, union density is quite high and well above the general average level of 20%: some 60%–70% of workers are union members. The metalworkers unions (which usually have a territorial, subregional representational domain) are affiliated to five peak associations, the principal one being the CUT, followed by Union Force (Força Sindical).

There are separate employer and trade associations for both OEMs and component suppliers. The employer associations are the National Association of Car Makers (SINFAVEA) and the National Association of Autoparts Manufacturers (SINDIPEÇAS) while the trade associations are the National Association of Vehicles Manufacturers (ANFAVEA) and the National Association of the Automotive Industry (ABIPEÇAS). Membership density is very high and reaches almost 100% in the case of employer associations. The Brazilian legal system obliges employers to ensure representation, although not necessarily membership, of employer and union, and collects compulsory dues to finance both trade unions and employer associations. This system may help to encourage membership. However, it should also be noted that the majority of dues collected by employer associations are voluntary, the compulsory amount representing only a small proportion of the overall fees.

In Brazil, the role of collective bargaining in addressing the effects of recession has centred mainly on reducing job losses. In the car industry, the strong position of trade unions, especially in the ABC region, helped in finding alternative solutions to redundancies; subsequent swift economic recovery and a rise in domestic sales then made job reductions unnecessary. In the supplier sector, however, jobs were cut by 10%. In this part of the sector, the position of trade unions is often weaker than in the OEMs, but the impact of the recession has also been more severe and persistent. A number of agreements have addressed the issue of employment security and introduced a number of measures intended to lessen the impact on employment levels. These have included collective vacations, the taking of individual leave entitlements, reductions in working hours, the utilisation of hour banks, and temporary layoffs.

In the car companies, as explained above, a sensitive issue was the termination or extension of temporary contracts. In many cases, the temporary contracts could be extended and confirmed, usually by offering incentives to senior production workers to accept voluntary redundancy. This happened, for instance, at Mercedes Benz, where some 1,400 temporary jobs were saved as a result of the voluntary redundancy of around 1,200 older workers. Similarly, at Ford, the voluntary departure of 163 older workers made the recruitment of 200 workers possible, while at Volkswagen the effects of government measures allowed an increase in temporary hirings above initial expectations. In autumn 2009, employment levels were around 6% higher than in 2008. In the early phases of the recession, before the government recovery package was passed and started to have an effect, a number of initiatives were used to adjust to lower production levels, including collective vacations, the hour bank and the reduction or postponement of bonuses.

Government initiatives

The government decided to tackle the effects of the recession in three sectors in particular – construction, appliances and automotive. (These sectors were chosen for their importance as employers and in their contribution to GDP). The incentive measures introduced typically included tax reductions and credit enhancement to boost demand. The measures for the automotive sector were introduced in early 2009 and renewed twice before a phasing-out process was started in the autumn of 2009 as the sector exited from recession. The outcomes were very positive, especially for the sale of cars. In practice, the fall in exports (from 23% of total sales in 2008 to 14% in 2009) has been counterbalanced by the increase in domestic sales encouraged by the government measures. The situation is far less positive for truck and bus manufacturers, since there has been a decrease in both domestic sales and exports and, as already mentioned, in the component sector due a fall in worldwide demand and a strong local currency.

India

India is an emerging location and market for the automotive sector. When the industry was opened to foreign direct investment (FDI) in 1993, a number of global players established production sites in that region. In 2008, India produced more than two million vehicles. Vehicle assemblers and a significant component sector has been established. The main domestic producers are Maruti, a subsidiary of Suzuki, and Tata Motor, which acquired Jaguar and Land Rover from Ford in 2008.

The effects of the recession were felt early in India, with a significant decrease in production, domestic sales and exports. However, the recovery was quite rapid and had already showed its strength by mid-2009. In the last part of 2009, there was a two-digit growth in the domestic market, which was supported by a stimulus package introduced by the government in the form of tax reductions for new cars. In addition, a renewal programme of India's urban bus system was launched with a view to supporting manufacturing and sales in the passenger vehicle segment of the automotive industry, which worldwide has been hardest hit by the recession (along with heavy commercial vehicles and tractors).

At the end of 2008, a number of measures were implemented at company level in response to the recession. One of the main initiatives has been to reduce the level of temporary workers who typically account for between 10% and 30% of the total workforce and earn wages ranging from a quarter to half of those of regular employees. Further employment reduction has been achieved through attrition and recruitment freezes. Collective vacations have been used and some cost-cutting was achieved through a reduction in the wage increase demands put forward during negotiations by trade unions (car makers are usually highly unionised).

China

The automotive sector in China is growing very quickly. Production has more than doubled since 2003 and domestic sales reached more than 13 million vehicles in 2009. The industry has been at the centre of national planning. Compared with the average size of producers in the sector globally, Chinese OEMs are still numerous and relatively small and it is expected that there will be substantial consolidation in the future. China is regarded as the main emerging market worldwide. Indeed, the main car manufacturers in China are joint ventures between local actors and global producers such as Volkswagen, General Motors, Hyundai and Nissan. The three main Chinese automotive groups, producing more than a million vehicles each, are Shanghai Automotive Industry Corporation Group (SAIC), China FAW Group Corporation (FAW) and Dongfeng.

China's production and sales figures have not been affected by the economic downturn: in autumn 2009 growth was up by almost 40% on the previous year. The Chinese government developed a programme for the automotive sector and is supporting both the consolidation of the industry, aimed at the emergence of a small number of OEMs, and market development, through reduced taxes. The government is also supporting research and development (R&D) in new fuel technologies.

Summary: global responses to the recession

Table 6: *Recession, government measures and industrial relations in the automotive sector, 2008–2010*

| | Impact of the recession | Government measures | Role of industrial relations |
|---------------|--|--|---|
| EU | Significant fall in sales and production | Fleet-renewal schemes to support demand Direct aid rather rare; most notable case in France | Crucial in most cases but to various degrees. For instance, in Germany, Sweden and UK, industrial relations played a key role in both designing and implementing the responses to crisis; in France, the role of industrial relations was significant but it relied heavily on public policies; in Spain and Italy, the role of public tools to address falls in demand was particularly important, compared to the weaker role played by industrial relations. |
| US | Significant fall in sales and production GM and Chrysler are forced into bankruptcy | Loans and equity to bail out GM and Chrysler 'Cash for Clunkers' programme (Car Allowance Rebate System) to support domestic sales | The revision of the 2007 Collective agreement and of the UAW Voluntary Employee Beneficiary Agreement (VEBA) was crucial to gain economic and financial viability for Ford, GM and Chrysler. VEBA acquired 20% equity in GM and 70% of Chrysler as part of the rescue package for the two bankrupt companies. |
| Japan | Significant fall in sales and production Employment adjustment has involved mainly temporary workers | Fleet renewal scheme and tax reduction Higher wage subsidies and lower eligibility criteria for income support measures in cases of temporary layoffs | Negotiations focused on employment security Measures included overtime restrictions and temporary layoffs |
| Brazil | Production and sales of passenger cars remained stable Production of components was significantly hit by the recession. | Tax reduction and credit provision to support purchase of new vehicles | Negotiations focused on employment security Measures included collective vacation, the use of hour banks, wage freezes, and incentives for resignation of senior workers to stabilise younger temporary workers. |
| India | Limited impact in the second half of 2008, then production recovered and continued to grow | Tax reductions for new cars Urban renewal programme for local transport and buses | During the partial downturn <ul style="list-style-type: none"> • reduction in temporary employment • wage freeze |
| China | Production continued to grow | Automotive Strategic Plan envisages a consolidation of the main OEMs Tax reduction | There is emerging evidence in the automotive sector that trade union representation played a role in defending the interests of their members; however institutionally there has not been a significant move towards independent, autonomous trade union movements and collective bargaining. |

Source: *EIRO*

Commentary

This analysis of recent developments in the automotive sector in the countries covered by this report seems to support the idea that the sector's expansion will – in the medium term – depend on the growth of emerging markets. In these countries, the potential for growth in the automotive market is high and government support initiatives do not necessarily encourage the replacement of older vehicles, as is often the case in the mature, saturated Western markets (in these markets, fleet-renewal schemes risk boosting demand in the short term but depressing it in the medium term). In emerging economies, public support tends to favour the development of the overall market and this means that the potential negative medium-term consequences of support schemes are not likely to materialise in these markets. It is important to stress that the three emerging areas covered by this study – Brazil, China and India – could overcome the effects of the global crisis on the automotive sector through domestic demand alone. This is particularly true in India and China; in Brazil, output levels could be maintained but not increased.

Such general market trends are very important for global motor companies, which will probably direct their development strategies towards these emerging countries. They will strengthen partnerships and alliances if this can help them to reach new customers and, at the same time, save on the investment costs – and risks – connected with expanding production capacity in new prospective markets. The last two troubled years have apparently led to a broad discussion among automotive companies and to the first steps being taken towards new collaborations and even strategic corporate alliances.

In the EU, Japan and the US, on the other hand, future prospects seem to depend on technological renewal because the markets are already saturated. The adoption of 'green vehicles' could drive a vast reorganisation of the industry – especially if electric vehicles become more widely used – and at the same time could open up new opportunities for growth. In this field, however, it is likely that automotive companies will need significant support from public policies to encourage the technological shift to greener vehicles. It is this kind of intervention, rather than the introduction of short time fleet-renewal schemes, that probably represents the main challenge for public support of the automotive sector in the EU, Japan and the US. This will involve a substantial reorganisation and restructuring of the industry where there is significant overcapacity, and a shift of production to lower labour-cost locations to neighbouring economic areas. Hence, the role of industrial relations and of social dialogue will probably be crucial.

It is interesting to note that measures taken through industrial relations and collective bargaining to tackle the effects of the economic downturn have been very similar worldwide: they typically include working time reductions or flexible working using hour banks, collective vacations, wage freezes and bonus postponement. Similarities are also visible in some of the emerging topics about representation and negotiation in the sector, such as the potential division between regular and temporary workers where the pay and hours of the latter are most affected by economic and financial difficulties. Of course, there are also some regional peculiarities, such as the importance of health benefits in the US and the role that the health fund for retired workers (the UAW VEBA) has taken on – possibly temporarily – as an important shareholder in the main US OEMs. Regardless of these similarities and differences, industrial relations in the advanced and emerging economies face differing challenges. In emerging economies, the trade unions will try to reap the benefits of substantial economic growth; in advanced economies, there will be probably a lot of reorganisation (of companies) and reconversion (of production) required. Any room for improving employment and working conditions will have to be found in the limited framework of enhanced productivity, efficiency and competitiveness.

In summary, the role played by industrial relations in emerging economies is quite different from that in advanced economies. In the emerging economies, industrial relations tend to reflect the automotive industry's development, the aim being a balanced distribution of growing gains among all the actors involved; in advanced economies, by contrast, trade unions and employers seek mostly to address complex market and technological challenges, to preserve business

competitiveness and to ensure better employment and working conditions. In the emerging economies, industrial relations appear to follow a more traditional and established pattern of ‘distributional bargaining’; in advanced economies, the prospect of reorganisation and restructuring is the more pressing concern. In both cases, a combination of public support (albeit tailored to the different situations of emerging and advanced economies) and well-developed industrial relations seem to present the most promising framework for addressing such distinct scenarios. The examples of countries with very different economic and institutional systems, such as Brazil, Germany, Sweden, the UK and the US, show how social partners can come up with old and new solutions, and help support social cohesion in times of global change.

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