

In collaborazione con il Centro Studi Internazionali e Comparati Marco Biagi

Inside

The auto industry outlook: the French case
by Marouane Achguiga

p. 3

Toyota and the automotive industry crisis: signs of an economic recovery from Japan
by Pier Francesco Acquaviva

p. 7

Chrysler's revival: the role of Fiat
by Pietro Manzella

p. 9

The auto industry in Germany
by Barbara Winkler

p. 11

To know more

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The auto industry: current crisis and future developments

edited by Pietro Manzella and Barbara Winkler

Last year, America's most important car-makers GM, Chrysler, and Ford applied to the Government for financial aid due to dramatic decreases in sales, with the lowest rate reported in November 2009, which led to a 40% sales drop.

The current recession cannot provide the only explanation for the enormous difficulties faced by car manufacturers. There are more complex reasons, such as business deals which eventually proved to be rather questionable. In addition to this, companies' inability to adapt to new market conditions, that is to meet new customers' needs, has been viewed as another cause of the economic downturn in the automotive industry. Because of the rise in the oil price, people tended to purchase small and medium-size cars with low fuel consumption, while for instance, companies based in Detroit kept producing high-powered vehicles which used too much petrol. Human resources management is another reason behind the auto industry crisis. Historically, the *Big Three* (GM, Chrysler, and Ford)

have always provided their employees with highly-generous social security benefits. Not to mention that their labour force mainly consists of workers with a considerable length of service, which corresponds to higher remuneration. Another factor to consider is the rise of industrial production in China, which called US hegemony into question. With more than 9.5 million vehicles put on the market in 2008, more than France, Germany, and USA, China became one of the most important car-makers, claiming its leading role at an international level. In this respect, a comparison with the results obtained in this area by developing countries, such as Brazil, India, and Russia also proved to be significant. The overall economic growth in these countries is equal to 1/4 of the one taking place in China; where here the crisis seems not to have affected car companies, which kept producing new vehicles at a lower rate, whereas economic giants such as Chrysler and GM were facing considerable difficulties. Significantly, statistics show that in

developing countries production mainly focused on hire cars (buses and taxis) and commercial vehicles (vans and trucks). China's entry into the car market also led to an overall reduction of labour costs, especially in the American context, not to mention that tax reductions on foreign investments promoted by the Chinese Government led companies (such as GM) to move part of their production chain to Asia. As a consequence, American workers faced considerable job reductions, due to a less expensive, yet highly qualified, Chinese workforce. Therefore, the American economy has been affected by the opportunity to save costs on labour provided by China, rather than by the number of cars sold and produced in China. Michigan, for instance, the home state of many car companies, had to deal with a dramatic increase in unemployment rates; starting from 2000, job losses rose to 73% and in 2008 GM offered its employees early retirement bonuses in order to downsize through voluntary resignation.

There have been many initiatives in this respect. Because of the workers' need to acquire special skills, the US Government set up a number of programs dealing with professional re-qualification, in order to give workers more job opportunities and higher remuneration. More specifically, Michigan's 2007 *No Workers Left Behind* program provides unemployed people who want to enter sectors with a high demand for labor with a 2 year loan corresponding to 10,000 dollars. In the first 18 months, 62,206 people had already joined this initiative, half

of them have completed the re-qualification program, and 7,805 participants found a new job by February 2009. Only 9% of the people taking part to the program quit it, while 48% of those who have completed the course are already in new occupations, despite the current crisis in the labour market. Statistics also show that in Michigan the ratio of vacancies to applicants is 1:50. A certificate is issued at the end of the re-qualification program; moreover, individuals are also provided with the opportunity to enroll in a Bachelor's or a Master's degree.

The main purpose of the *No Workers Left Behind* program is to motivate unemployed people to obtain a higher level of education, in order to give them more opportunities to be hired for higher skilled positions.

According to a 2009 report dealing with the program, 77% of participants attended high-level training (*No Workers Left Behind, Outcomes for first 18 months*, in www.michigan.gov). Generally speaking, classes are held in Community Colleges, private universities and certified bodies. Online courses are also available for college experienced students. Once enrolled, participants have to complete the program within 4 years; the organizing body, which is supported by federal funding, meets participation costs, including books and registration fees. Additional funding has been provided thanks to the American Recovery and Reinvestment Act (ARRA), set up by the Government to overcome the economic downturn.

Unlike the 2008 Stimulus Act, which only provided benefits in

Bollettino Adapt

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Bollettino ordinario

It's a weekly newsletter providing updated information on labour law and industrial relations. It includes extensive documentation from international, EU, national, regional and local sources, divided by section. Particular attention is paid to: certification, Italian case law, employment agencies, employment services, staff leasing, education, training, apprenticeships, research, higher education, mobility of labour, immigration, collective bargaining, health and safety, working hours, and undeclared labour. In addition it includes statistical surveys, economic notes and institutional reports, news about calls for tenders, competitions and awards, and the activities of Adapt/Marco Biagi Centre for International and Comparative Studies.

Bollettino speciale

Distributed since November 2005, this newsletter provides a forum for in-depth study on thematic issues relating to labour law, industrial relations, and training based on the same sections as the *Bollettino ordinario*.

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terms of tax relief, the above-mentioned program represents a major commitment for the US Government, as it provides that 787 million dollars will be allocated for unemployment benefits, social welfare, education and vocational training. Therefore, under the slogan ‘Michigan works’, employment agencies reunited with the aim of promoting workers’ reintegration into the labour

market, and serving as reference points in re-instating workers who ended the re-qualification program, and identifying those sectors with the highest labour demand, such as *Green economy*. Due to the crisis undergone by the auto industry, the local Michigan economy, as well as the national one, is facing considerable transformation, tending towards the creation of ‘green’ jobs. In

Michigan alone 110,000 new green job positions were created. In conclusion, USA resorted to green jobs to overcome the financial crisis; other countries, on the other hand, such as Japan and France, adopted different measures to recover from recession.

*Pietro Manzella
Barbara Winkler*

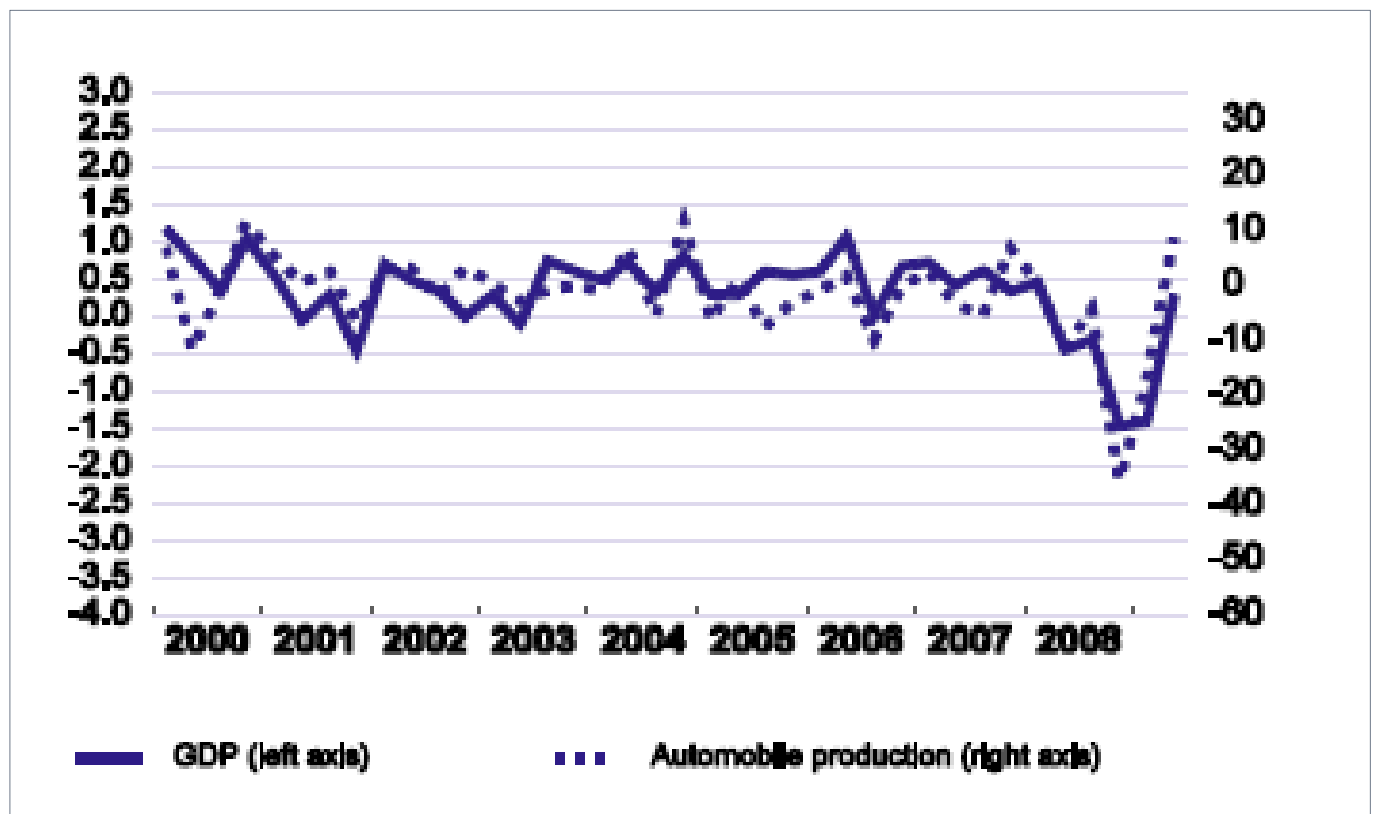
The auto industry outlook: the French case

by Marouane Achguiga

With a sales drop reported in the third quarter of 2008, worldwide car markets seemed to have predicted the economic crisis. The financial downturn was expected to produce a 10% decrease in vehicle registration in Western Europe in 2009, which corresponded to a 15% worldwide fall. Such a de-

crease is regarded as alarming if we consider the relevance of the automotive sector within the Western economies, including France, as reported by an OECD recent survey (OECD, *Economic Outlook*, November 2009, n. 86). In France, the auto industry makes up for 6% of industrial production,

Chart 1 – Link between GDP and automobile production

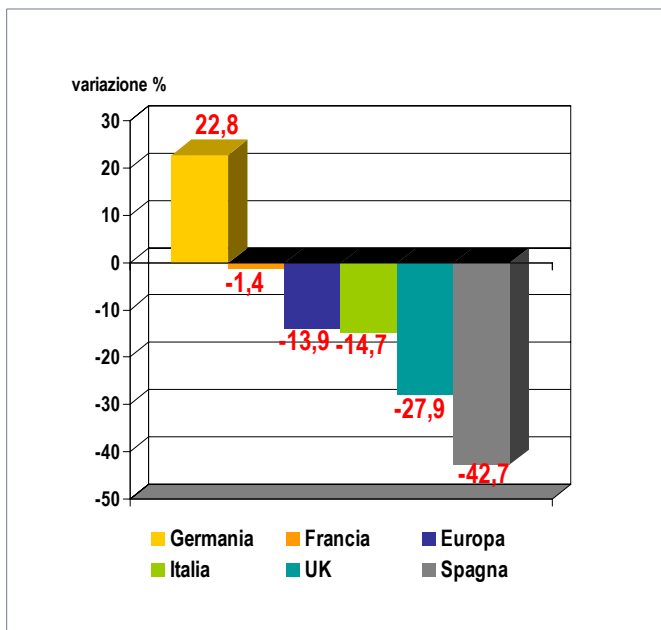


Source: OECD, *Economic Outlook*, November 2009

which is equal to 1% of national GDP, and to 12% of export trade. The survey also highlights the link between the GDP trends and the automobile production (see Chart 1).

There are 2.5 million people working for the auto industry in France; 678.000 of them are employed in ‘direct’ activities (production chain, direct and indirect induced activities, and auto parts manufacturing) and 1.8 million in ‘indirect’ tasks (selling, maintenance, transportation, etc.). As of 31 December 2008, there were 225.000 people working for the two national car companies alone (the PSA Group, Peugeot-Citroen, and Renault). After highlighting the relevance of the sector in France, let us now provide an outline of the current situation of the car market. Balance sheets for 2009’s first semester did not provide hope for quick recov-

Chart 2 – European market in the first semester of 2009



Source: CCFA, *Comité des Constructeurs Français d'Automobiles*, 2009

ery (see Chart 2), confirming 2008 trends, with the exception of Germany, and partially of France, where car incentives have been issued.

Car incentives have supported the sector significantly over the year, pushing industrial production higher, with signs of a recovery reported in the first quarter of 2009. 17 European Countries provided economic support to the auto industry by allocating financial aid both to customers (car-scrapping incentives, eco-incentives, preferential financing conditions, reduction/elimination of the road tax, and reduction of tax rate) and to manufacturers

(credit lines, research aid, and other special funding). Funding to customers have been quantified as follows:

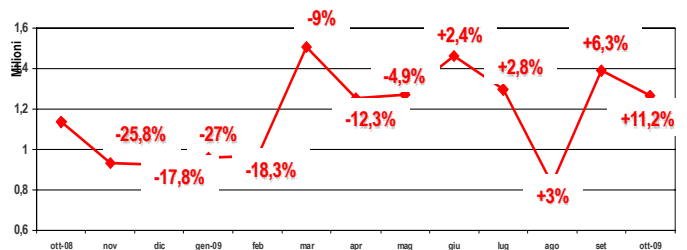
- from January to December 2009: 1,000 Euros;
- from January to July 2010: 700 Euros;
- from July to December 2010: 500 Euros.

In order to comply with these subsidies, the Government has allocated 380 million Euros in 2009 and 240 million in 2010. France has also been the only European country to provide car manufacturers with financial aid in February (3 billion dollars for PSA and Renault), even though this decision led to heated arguments. The loan has been offered with a 6% interest rate, lower than market rates, and should be repaid within 5 years. On their side, manufacturers committed themselves not to shut-down and to avoid redundancies. At a European level, the eco-incentives proved to be effective over the first semester of 2009, producing encouraging results (see Chart 3). The reason of the delayed effects of the incentives on the market is mainly due to the fact its implementation produced a slowdown in vehicles registration in some countries (this is the case of Italy, where incentives have been provided in February 2009, cf. Legislative Decree 10 February 2009, No. 5).

In France, the first sign of an economic recovery dates back to March 2009, and consolidated in May, with vehicle registration reporting a 7.6% increase in the first eleven months of the year, if compared to the year before.

As showed by Chart 4, crisis is still felt by the sectors of light commercial and industrial vehicles, where statistics indicate a 21.2% and 38% decrease

Chart 3 – European market, volume of trade and variations in February compared to the same period of the year before



Source: CCFA, *Comité des Constructeurs Français d'Automobiles*, 2009

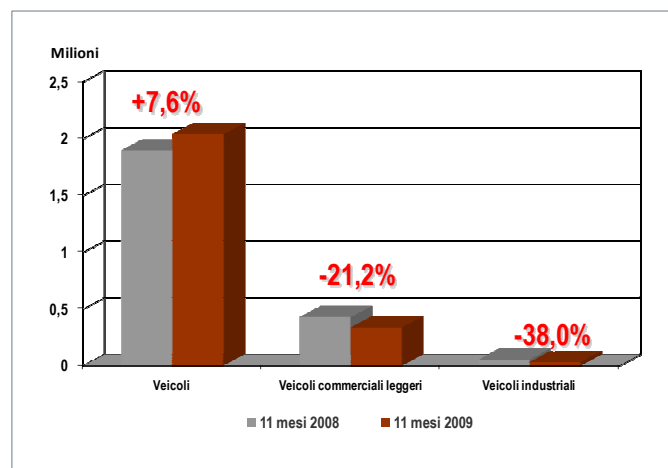
in sales, respectively. This is because they have not been entitled to any incentive and also because they are more exposed to economic trends, as purchased by companies.

With a 7.6% increase in this market sector, French manufacturers also experienced a 9.8% rise in the volume of trade, and market penetration (from 53.1% to 54.2%).

An outlook for the worldwide auto market

It is not difficult to assume that the market upturn due to incentives is temporary and it does not pro-

Chart 4 – French market in the first eleven months of 2009



Source: CCFA, Comité des Constructeurs Français d'Automobiles, 2009

vide a solution to issues within the auto sector. There are many challenges to be faced for the year 2010. According to a survey carried out by JDPower, a market analysis company, the European market is expected to suffer a 10% decline in

Table 1 – Performances of French Manufacturers in the first 11 months of 2009

Marchi	gen-nov 2009	Variazione / gen-nov. 2008	Quote di mercato (rispetto al 2008)
PSA Peugeot Citroën	652 547	+11,5%	32,0% (30,9%)
Gruppo Renault	505 718	+9,5%	24,8% (24,3%)
Marchi francesi	1 106 195	+9,8%	54,2% (53,1%)
Marchi esteri	934 182	+5,1%	45,8% (46,9%)
TOTALE	2 040 377	+7,6%	100 %

Fonte: CCFA, Comité des Constructeurs Français d'Automobiles, 2009

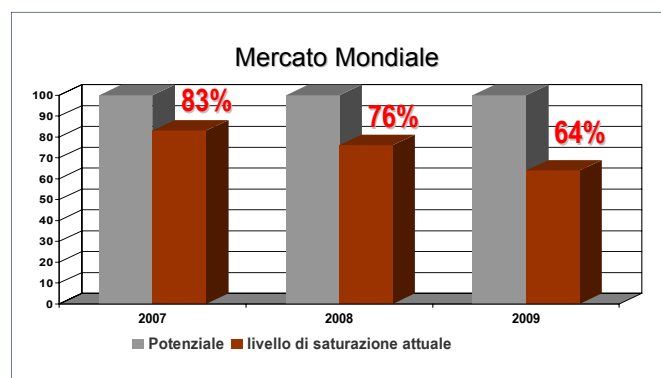
sales despite the recovery experienced in 2009. This is because a number of countries will no longer provide (or will reduce) the amount of incentives. In this connection, Italian Minister of Economical Development, Mr. Claudio Scajola,

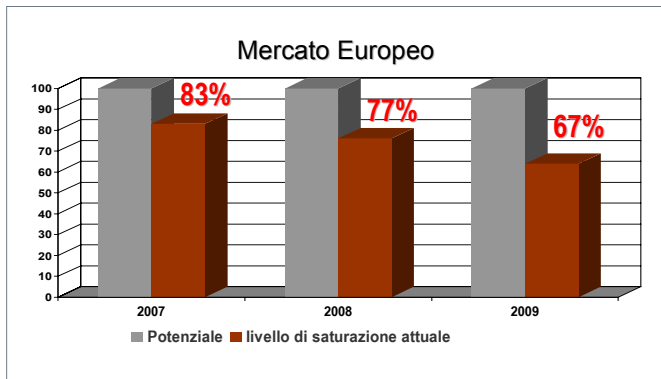
stated that “subsidies ‘dope’ automotive sector causing a market distortion; for this reason they need to be reduced in order to go back to usual standards”, adding that “This is a European issue, and we are discussing it with other countries in order to find a common ground”.

The auto industry will need considerable time to fully recover without resorting to Government aid. A major issue to be faced is the one dealing with overproduction. According to facts, 2009 worldwide capacity utilization will not go beyond 64%, meaning that company will produce 64 vehicles and not 100 as planned. This will have negative effects in terms of returning on equity, also causing both installations and human resources to become inefficient, as not fully implemented. The most obvious example is the bankruptcy of the *Big Three*, for which current recession brought to light already existing difficulties.

In terms of numbers, worldwide production capacity is over 90 million of vehicles per year, meaning that, considering current saturation, 32 million units will not be absorbed by the market. As stated before, despite avoiding a financial crack in a severe economic downturn, the allocation of financial aid does not provide a long-term solution to the issue. For this reason, there are two possible ways forward to consolidate the automotive market in the following years. There is a need for bigger industrial groups in an increasingly competitive market, which at the same time calls for a reduction in production capacity, that is to say a reduction in the number of installations. This is what GM, Ford, and Chrysler have already done, followed in Europe by Opel, which has planned downsizing and massive layoffs. As we have seen, French installations will not be shut down for the moment, thanks to the government considerable

Chart 5 – Average saturation in 2009





Source: PwC Automotive Institute, *Second quarter Report 2009*

financial support, in return for companies’ commitment to avoid dismissals.

Recent developments dealing with market consolidation involve PSA Group (Peugeot and Citroen) which plans to acquire a stake of 30% in Mitsubishi Motors. The agreement will allow the French group to capitalize on these new synergies in terms of industrial platforms, to save costs thanks to an economy of scale, and to expand its presence into new markets. Another key point is the opportunity to produce electric vehicles, for which Mitsubishi plays a leading role at a technological level. Once finalized, the agreement would lead to the creation of the 6th largest car manufacturer of the world, with 4.4 million of vehicles sold in 2008, more than the Fiat-Chrysler group (4.3 million). The

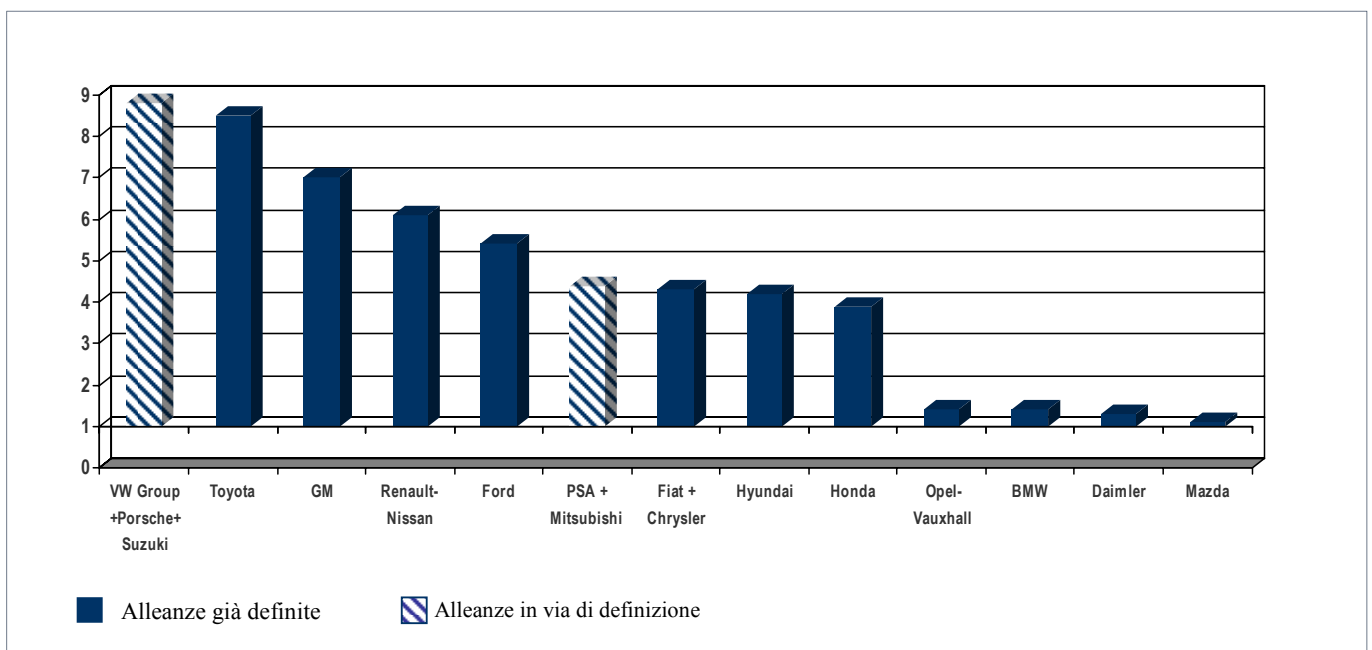
agreement could have the same terms as to ones laid down between Renault and Nissan almost ten years ago, with the former taking over 44% stake in the Japanese company, and becoming the fourth largest car producer. The same happened with Fiat, which bought a number of stakes in Chrysler. Chart 6 shows new industrial groups after recent merging and partnership, on the basis of 2008 sales.

The new asset was already predicted by Fiat CEO, Sergio Marchionne, who stated that “There will be only a handful of car manufacturers within a few years”. At the time, these words shocked experts of the field. However, since then a number of agreements have been signed (Fiat and Chrysler, Psa and Mitsubishi, Volkswagen and Porsche). Volkswagen has come to an agreement with Suzuki to take over 20% stake, becoming the leading manufacturer, better than Toyota. Chinese Changan could take over Volvo from Ford, while in Europe Daimler and BMW are planning to form a partnership to work together on car components in the view of a future stock exchange.

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Chart 6 – Top global manufacturers forecast for the following years



Source: manufacturers’ annual budget, 2008

Toyota and the automotive industry crisis: signs of an economic recovery from Japan

by *Pier Francesco Acquaviva*

There have been signs pointing to an economic recovery in the Japanese auto industry. Since August, statistical evidence has shown that the end of a nightmare for the car market leader is near: a 9% increase in global trade reported at the end of the summer, an increment of 3% in sales forecasted for the current fiscal year, with 6.7 million vehicles expected to be sold by March 2010, and a 8% rise estimation in production volume provided for the same period is evidence of recovery. In October, and for the first time in 15 months, Toyota balanced their books with a profit. The recent reversal of fortune is also confirmed by the fact that since October, 1,600 workers have been hired on a temporary basis, thanks to the company's new recruitment campaign. Such data, however, should be interpreted carefully. The reason being that the current crisis has been mostly caused by a fall in demand, which mitigated the effect of Government aid; with the latter providing a reduction of the cost of items and therefore affecting supply, families' purchasing power has increased only partially. Despite being relevant, demand has not been taken into account. In this connection, let us just think that a considerable number of cars have still been sold in China and India, with the latter becoming the largest car market (10.7 million vehicles sold per year, more than US with

9.8 million items), the majority in this country consist of middle-class individuals who have bought a family car for the first time.

If the financial crack was predictable for companies such as GM, which uselessly resorted to instalment payments to cover a loss that in 2008 was equal to 61 billion Euros, Toyota seemed to be able to overcome the crisis, also because of its record sales and a 85 billion Euros corporate assets for the year 2008. At the beginning of 2009, however, the company communicated it was 450 million yen in red (the first time from its establishment), reporting a steep sales drop, to the extent that its financial solvency led the Japanese car manufacturer to lose its triple-A credit rating by Standard & Poor's Moodys. The loss has been mostly caused by a fall in sales in the United States and in Europe, also worsened by a rise in the price of raw materials and by a stronger yen, which produced a negative effect on international markets.

In the first quarter of 2009, Toyota suffered the most significant loss ever, wasting 7.7 billion dollars in only three months. This was alarming, especially if we consider that the company reported a profit of 3.2 billion just a year before. Statistics provide a rather worrying overview of facts; here are further data which are quite significant: In February 2009, Toyota had to rent a ship

in the Swedish Malmoe Port in order to store 2,500 unsold cars, since the centre based in that town reached its maximum storage capacity of 12,000 vehicles. This was an extraordinary measure adopted by the company, as the one taken for the first time dealing with a plant shutdown. Ratified at the end of August, the close-down obviously caused heated arguments.

Furthermore, prominent Japanese installation based in California, the New United Motor Manufacturing Inc. (NUMMI), which has been co-administered with GM for 25 years, will shut-down by March 2010. This is the first time in Toyota's history that a big-sized plant is forced to close-down. NUMMI was the largest car factory of the Western US. Set up in the Sixties and with 54,000 workers, it became a joint-venture in 1984 in order to allow Toyota to access the American market, and GM to study Japan's latest production technology.

Therefore, beginning from March, the production chain will be transferred from Fremont to San Antonio, Texas, and Ontario, Canada. Even in this case, the decision was sharply criticized by American union, United Auto Workers (UAW), as there was a strong presence of its representatives there. The Governor of California, Arnold Schwarzenegger, and US public opinion also raised doubts about the decision, also because of the survey out-

comes carried out by the Transportation Research Institute of the University of Michigan, according to which the program *Cash for Clunkers* set up by the White House turned to be more useful to Japanese companies than to American ones (41% of purchased cars are produced in Japan).

In addition, the Detroit Big Threes lost half of their customers, who tended to buy foreign cars, with only 43% of them who kept buying American vehicles. Significantly, 68% of those who scrapped their car reinvested their money in buying an Asian model. For this reason, Toyota management has also been accused of ingratitude.

In light of this, what are the prospects for Toyota and its employees? At the moment, in order to overcome possible losses expected for the second consecutive year, the company has cut 20% of its bonuses to be paid in December to 8.700 managers. The same may occur in June, since a 200 billion yen loss is expected for the fiscal year ending in March 2010. The bonus cut has been communicated after announcing that the accelerator pedals of 3.8 million vehicles sold in the US need to be replaced, which is an unexpected expense to cover considering the current economic crisis. Generally speaking, car companies' financial strategies are planned also according to the Governments' industrial policies, that is a set of measures addressed to a specific sector with the aim of strengthening their position in the market against foreign com-

In 2009 a loss was reported for the first time

petitors. For instance, Japanese businesses significantly benefited from provisions set out by the National Ministry of International Trade and Industry (MITI) in terms of export trade. Since Governments of many countries provided financial support to car companies, those operating at

an international level like Toyota took advantage of them on a cross-cutting basis. In October 2008, the announcement of Government aid to be forthcoming had positive effects on stock exchange quotations. After that the European Commission set up a plan to tackle the crisis, Toyota shares reported a 15% increase.

As we have seen, the Cash for Clunkers program issued by Washington, allocated a billion dollars to the sector, originally only for three months, in order to provide customers purchasing environmentally friendly cars with 3,500 to 4,500 dollar bonuses. The purpose is to give momentum to the auto industry (supplier, manufacturers, and car distributors more generally), and to accelerate the forthcoming revolution in clean energy. In this respect, Toyota plays a major role because of an evolving strategy which led it to develop cutting-edge technology in this field. In addition, a number of related provisions have been issued by the Japanese Government, such as a tax reduction on vehicles with reduced CO2 emissions, which is expected to increase the number of car registrations up to 310,000 for the fiscal year 2009/2010. According to a survey conducted last December

by the Automobile Dealers Association, the market reacted favourably to customer incentives for environmentally friendly cars offered until March the 31st; a 36% increase in sales has been reported in November, providing the fourth consecutive monthly rise. Passenger cars also reported a 43.9% increase, corresponding to 268.450 cars sold, as well as cars with 2000 cubic capacity (45.5%).

It seems that the most critical moment for the automotive industry has been left behind and that Japan is the starting point for a quick recovery. Whether this is true or not remains unknown.

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Chrysler's revival: the role of Fiat

by *Pietro Manzella*

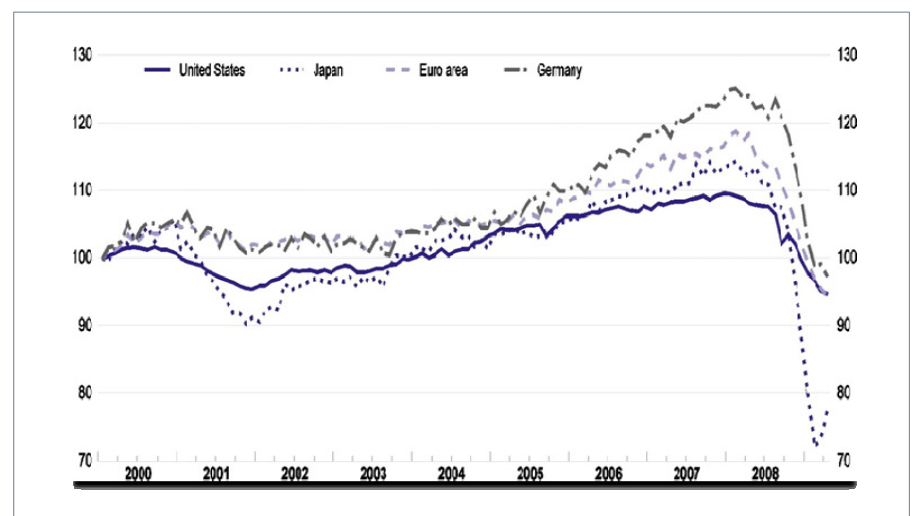
The agreement between Fiat and Chrysler, which was reached on 10 June 2009, put an end to a long-standing saga, which involved a number of actors at a national and international level. The prominent American car manufacturer, which produced popular models embodying the national culture, such as *Dodge* and *Chevrolet*, faced a sharp economic downturn. The financial crisis affecting the smallest of the US *Big Threes* (along with Ford and GM) has been caused by the international recession, which had a negative effect on industrial production (see the Chart), and by the shortsightedness of some alliances and strategies.

At first, the unsuccessful agreement with German Daimler-Benz, which was put into question only two years later; and then the selling of the company to a hedge fund run by Cerberus Capital Management. Not to mention the drop in sales rates, which urged the Government to allocate large sums of money to support the American car producer. The former US President, George Bush, as well as Barack Obama worked hard to save the industrial giant, with the latter regarding it as “an icon of America’s auto industry and a source of pride for generations of American workers”. He also set up an *ad hoc* Task Force to monitor the activities of the company, which was heavily indebted to the State and to a number of banking houses. It was in January 2009 that rumors con-

cerning an interest in Chrysler on the part of the Fiat group started to circulate. Sergio Marchionne, the Italian-Canadian chief executive of the group, who a few years before saved the Turin-based car industry from bankruptcy, presented an offer that could not be refused. Fiat would have owned a 20% stake of Chrysler in return for high-level technology in terms of green energy and the opportunity to access the US market. In this respect, the Turin-based auto manufacturer left the American market in 1983, with a poor reputation in terms of reliability. Marchionne’s new management however brought an air of innovation, and Obama must have been aware of it. He admitted to have a *Fiat Strada* when he was young and he strongly encouraged the alliance between the two car manufacturers and the implementation of Chapter 11, a chapter of the US Bankruptcy

code which facilitates the business reorganization in the event of a financial downturn. According to the agreement Fiat would hold a 20% stake in Chrysler, with the opportunity to raise this to 35% and even to 51%, on the basis of the company’s financial performance. Besides the Italian manufacturer, the other stakeholder is UAW Voluntary Employee Beneficiary Association, owning 55% of the company, with the remaining stakes belonging to the US Ministry of Treasury and the Canadian Government. The share owned by VEBA is aimed at safeguarding old Chryslers’ pension liabilities for the employees. The main purpose of the powerful American trade union is to sell its shares in order to recover the sum of money to be used by VEBA to meet the retirement benefits for its members. As for the flight company Alitalia, the filing for Chapter 11 made it possible for

OECD Countries industrial production



Source: OECD

creating a *bad* and a *good* company, the latter of which run by Fiat. Marchionne's pragmatism succeeded in persuading the more skeptical, with the result that on November the 4th, Chrysler 2010-2014 business plan was presented.

Chrysler 2010-2014 business plan, the 'green' engines, and the professional requalification

As stated before, Chrysler business plan was presented on the 4th of November in Auburn Hills, Michigan, the company headquarter, dealing with future marketing strategies and restructuring. Eco-sustainability is at the core of the company policy. In this connection, Fiat's advanced technology for the production of green engines plays a major role for future developments. In order to facilitate the creation of environmentally-friendly engines, a number of Chrysler models will be adapted and rebuilt to comply with Fiat production chain. There has been scrupulous attention to detail; in order to save 20,000 trees, for example, car handbooks will be provided on DVD. Fiat's concern for the environment as shown in the business plan was greeted with enthusiasm by the American Government, especially if we consider that Obama's administration is given priority to renewable energies. United States is a petroleum import top country, and the resort to Fiat *Multitair* technology dealing with the production of low fuel consumption vehicles, would enable it to become more independent from black gold producers. From its side, Fiat would enter

the American market by creating 21 new environmentally-friendly models by 2014. Apart from high-powered cars, such as Jeep, which hold much appeal in America and Europe, production will focus on affordable small and medium-size vehicles, with the aim of overcoming skepticism toward these models, following the example of Peugeot, which successfully produced *sport utilities* vehicles. Marchionne forecasted a return for the investment within a year, through a number of measures aimed at increasing sales, reducing costs, and re-qualifying workers. Obama himself in his remarks on the Automotive Industry (30 March 2009) stated that a number incentives and tax remission would be provided to those who scrap their car to buy a new one.

Financial support has been provided also to companies (Chrysler and Fiat) and suppliers, with the Government allocating 1,7 billion dollars to them. Obama also promoted measure for workers' re-qualification, praising Michigan's *No Workers Left Behind* program (in www.michigan.gov/nwlb), which helped unemployed people re-enter the labour market, by setting up training programs and providing benefits, on the basis of the Trade Adjustment Assistance Act.

In this connection, benefits to promote voluntary dismissals have been considerable, following the shutdown of a number of installations resulting from a decrease in sales. In addition, according to a US Government estimation, there could be as many as 100,000 redundancies. Dismissed workers are granted

50,000 to 75,000 retirement bonus depending on the length of service, retirement contributions, and a 25,000 'car bonus'. The program, however, is important as providing them with an alternative to social welfare. Besides in-company training, the *No Workers Left Behind* program also give them the opportunity to acquire new skills by attending courses in public universities. This is rather relevant if we considered the impact that the auto industry has on worldwide employment (2% of working people within OECD countries are employed in this sector, which increases up to 3,3% in the United States if we include related occupations, such as insurance bodies, suppliers, banking houses, etc.).

With reference to the agreement between Fiat and Chrysler, the business plan and its innovation in terms of environmentally-friendly engines and incentives should provide its first results in two or three years, on the basis of auto market recent developments, a reduction/merging of the number of manufacturers and a more addressed production. In this respect, the Fiat-Chrysler alliance should play a major role, since it represents two major companies' attempt to bring innovation in this field.

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The auto industry in Germany

by Barbara Winkler

In October 2008, the influential German magazine FAZ (*Frankfurter Allgemeine Zeitung*) ran the headline *wheels are stuck*, in reference to the economic downturn affecting the auto industry in the country. Opel experienced major restructuring, Ford dismissed more than 200 workers in the German state of Saarland, and BMW and Volkswagen had to deal with an increase in production costs. The financial crisis affecting American GM had serious consequences on its subsidiary company in Germany, Opel. In order to recover quickly, the company was supposed to be sold to the Austrian-Canadian auto component producer Magna, financially supported by the Russian bank Sberbank. The restructuring plan provided that the Opel and Magna-Sberbank group would hold the majority share (55%), with a 35% stake held by GM and 10% run by the employees. The Government also supported the plan, allocating 4.5 million Euros to the process. At the beginning of November, however, Detroit-based company opted for a different solution, maintaining ownership of Opel and presenting a new business plan which would have a significant effect on employment, with 10,000 redundancies in Europe, half of which were to occur in Germany alone. A number of strikes and demonstrations took place after the announcement, even though GM insisted on only an estimation of 8,700 layoffs Europe-wide and 5,300 in the Country. The main purpose of

the plan was to save the four main installations based in Bochum, Eisenach, Kaiserslautern and Rüsselsheim, which would become the European company's core. In order to implement the restructuring plan, the American car manufacturer applied to the governments where the plants were based for financial aid (2.5 million Euros were funded by Germany). Germany also tried to give momentum to the sector, providing 9-year-old car scrapping incentives up to 2,500 Euros for those who bought a new environmentally-friendly vehicle (that is a vehicle with CO₂ emissions lower than 160 g/Km). This initiative had positive effects on employment: with a 20% increase in car registrations in Germany, the Opel installation of Eisenach resorted to 4 additional work-shifts to keep up with demand, even though the sector experienced a general decrease, in comparison to production in 2008.

The auto industry: its effects on employment

The auto industry affects employment considerably. According to a survey carried out by the *European Labour Force*, 834,000 people were employed in this sector in Germany in 2007, 258,000 in France and 168,000 in Italy (see European Foundation for the Improvement of Living and Working Conditions, *Recent Restructuring trends and policies in the auto-*

motive sector, 2009, 1, in www.eurofound.europa.eu).

A company's flexibility as an instrument enabling them to comply with changes in demand and commissions

With German Labour Law providing a considerable number of rules, especially those dealing with remuneration and dismissal, local companies experience significant difficulty in keep up with ongoing economic changes. The high quality of the German manufacturing, however, is based on job security, allowing for major investment on *ad hoc* training for workers. At the same time, the Government encourages companies which spontaneously implement different forms of flexibility, resorting to market policies (see W. Eichhorst, P. Marx, *Kurzarbeit: Sinnvoller Konjunkturpuffer oder verlängertes Arbeitslosengeld?*, IZA Standpunkte, 2009, n. 5, 11, in <http://ftp.iza.org/sp5.pdf>). Differences in workload due to the gap between demand and supply are managed by resorting to flexible working hours. According to the agreement signed by the metalworkers' union (IG Metall), working hours can be reduced to 33 weekly hours in the West Germany, and 35 weekly hours in the East Germany. At company level, agreements providing for more flexible working schedules constitute the main instrument to tackle the crisis and avoid dismissals (see V. Glass-

ner, B. Galgóczi, *Plant-level responses to the crisis: can jobs be saved by working less?*, ETUI Policy Brief, European Economic and Employment Policy, 2009, n. 1, 1, in www.etui.org/research).

The reduction of working hours: *Kurzarbeit*

In order to mitigate the negative effects of the crisis, Germany strengthened an already existing measure, which has been implemented in the past: the so-called *Kurzarbeit*, a reduction of working hours linked to lower remuneration, whereby workers are entitled to between 60% and 67% of their wages in the event of reduced working hours. The Public Employment Service office, which is in charge of social security in Germany, provides income support to workers employed on a part-time basis. Such benefit has a duration of 6 months, and can be extended up to 24 months, according to recent provisions issued by the German government. Due to the seriousness of the current economic crisis, the scope has also been extended to agency workers, who cannot be hired from between the period of 3 to 6 months.

In order to apply for the *Kurzarbeit*, companies have to meet certain requirements: the lack of employment explaining the reduction of working hours should be caused by economic reasons, or by circumstances beyond one's control. In addition to this, the reduction should affect at least 10% of the working time, and the companies should provide a written statement of such reduction, in order to allow the

Public Employment Service to study the case and grant the benefit.

In Germany, all auto manufacturers resorted to the *Kurzarbeit*. In February 2009, Volkswagen announced that 60,000 workers faced reduced hour plans, and BMW did the same in March (26,000 employees) and Opel in April. Between October 2008 and April 2009, 5% to 10% of notifications of working hours reductions involved car companies. The number of workers employed on a part-time basis reached its peak in February 2009, with 206,000 workers working on reduced time (1/3 of the total amount). As a means aimed at restoring full employment, such organizational models are effective in the event of a financial downturn from a socio-economic point of view, especially if supported by training and requalification programs. Besides providing the *Kurzarbeit*, the Government also meets part of the costs borne by the employer to provide the worker with training courses. The Government also covers the expenses in terms of social security contributions for hours not worked whereas the employer provides training courses to employers working on a part-time basis. It is up to the Public Employment Service to assess the effectiveness of the requalification programs. In this respect, considerable difficulties arise from setting up such courses, especially for small companies, which have to resort to outsourcing.

According to a survey carried out by IAB over the year 2002-2003, 60% of reduced-time workers attending the training program has stable employment 6 months

after the end of the course; 2 years after, 40% of them has an occupation without applying to social welfare. The survey also points out that not only are companies providing a reduction of working hours able to keep the same employment levels, but they also succeed in hiring new workers (A. Deeke, C. Ohlert, *Qualifizierungsmaßnahmen während Kurzarbeit nach endgültigem Arbeitsausfall*, IAB Forschungsbericht, 2009, n. 3, in <http://doku.iab.de/forschungsbericht/>). However, it is worth highlighting that the prolonged economic crisis and income support may lead to long-term unemployment and pave the way to early retirement. In addition, whereas provided in the long-run, income support might have a negative effect on the manufacturing industry, as labour force is kept in this sector instead of being transferred to more forward-looking areas.

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This Dossier has been created in collaboration with the members of Adapt

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Adapt Dossier – On-line Publication of the Adapt book series

In-depth study on issues relating to the industrial relations and the labour market – Issue 25, 22 December 2009

Registrazione n. 1609, 11 novembre 2001 – Tribunale di Modena