

► ILO Sectoral Brief

Date: 8 April 2020

COVID-19 and the automotive industry

The automotive industry makes a significant contribution to the global economy. The industry's annual turnover is equivalent to the world's sixth largest economy. In 2017, global direct employment in the industry was estimated at nearly 14 million workers.

While employment had recovered from the 2008-09 global financial crisis, employers and workers across the global supply chains of the industry are once again faced with great uncertainty. Since the global pandemic began in China, the impact of COVID-19 on the automotive industry was first felt in Asia, but has since become severe in all other parts of the world.



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Assembly plant, Mahindra & Mahindra Ltd., Mumbai, India

► 1. The impact of COVID-19

The automotive industry is facing a sharp drop in demand and investment. It is also struggling with an abrupt and widespread stoppage of economic activity, as workers are told to stay at home, supply chains grind to a halt and factories close.

Restrictions on the movement of people and the sudden stoppage of economic activity are expected to cause a severe contraction in sectoral output and Gross Domestic Product (GDP). It is estimated that factory closures in Europe and North America have caused some 2.5 million passenger vehicles to be removed from production schedules, at a cost of US\$77.7 billion in lost revenue for automotive and parts manufacturing companies.¹

This is having negative multiplier effects on the economy through backward and forward linkages, particularly in countries such as Canada, China, Germany, India, Japan, Republic of Korea, Mexico, Morocco, South Africa and United States, where the automotive industry is a major driver of economic growth. Small and medium-sized enterprises (SMEs), which account for the bulk of employment in the sector and provide intermediate inputs and services to multinational carmakers, are expected to be severely affected (backward linkages). Sectors likely to be affected by the closedown in the automotive industry through forward linkages include: transportation (e.g. freight, ground passenger transport, charter buses) and services (e.g. passenger car rental and car repair).²

¹ GlobalData, "Coronavirus (COVID-19)", Executive Briefing report, updated on 30 March 2020.

² Tirpak, M., & Kariozen, A. (2006). "The automobile industry in Central Europe", IMF Note.

The pandemic has resulted in an unprecedented surge in unemployment in the automotive industry across its supply chains. Many more jobs will be at risk if governments, employers and workers do not take immediate action to ensure the survival of SMEs and protection of workers.

1.1 Sales

New vehicle sales in China plummeted by around 92 per cent in the first half of February 2020, and it is estimated that vehicle sales will fall by at least 2.9 per cent in China in 2020.

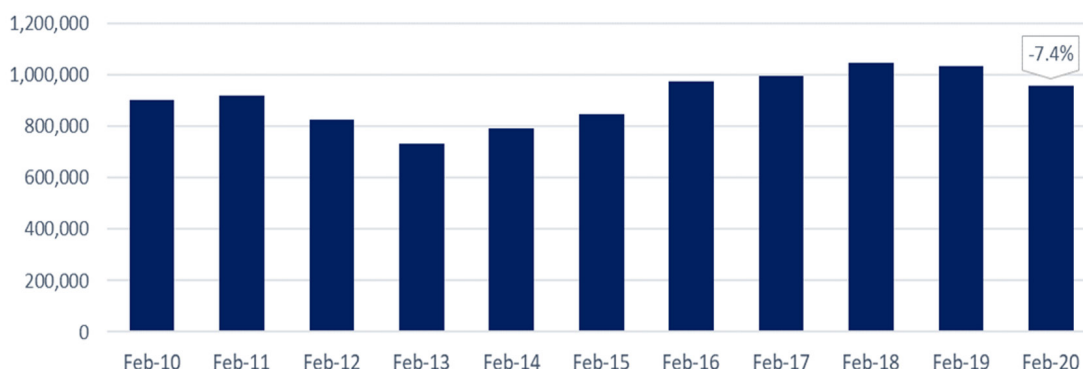
According to the European Automobile Manufacturers' Association (ACEA), total sales of new vehicles in the European Union (EU) in January and February 2020 were 7.4 per cent lower than in the same period the previous year (Figure 1). Each of the four major EU markets has faced falling demand in 2020: Germany by 9.0 per cent, France by 7.8 per cent and Italy and Spain by 7.3 per cent and 6.8 per cent, respectively.

1.2 Trade

Given China's role as the world's main supplier of intermediate inputs for manufacturing companies abroad, the decline in output and exports from China is having a direct impact on the automotive industry. For many automotive companies, the limited use of inventories and heavy reliance on just-in-time manufacturing is resulting in shortages that are affecting their production capabilities and overall exports.

The United Nations Conference on Trade and Development (UNCTAD) estimates that a 2 per cent reduction in exports of parts and other intermediate inputs from China to automotive manufacturers in the EU, North America, Japan, Republic of Korea and other major automotive producing economies could lead to a US\$ 7 billion reduction in automotive exports from these economies to the rest of the world.⁵

Figure 1: Passenger car sales in the European Union, 2010-2020 (February of each year)



Source: European Automobile Manufacturers' Association (ACEA)

In South Africa, the National Association of Automobile Manufacturers of South Africa (NAAMSA) reports that the automotive industry, which contributes about 7 per cent of the country's GDP, is experiencing a significant decline in sales.³ In view of the national lock-down, the situation is expected to worsen, and will eventually affect overall manufacturing and transportation.

Moody's, the credit rating agency, has slashed its global vehicle sales forecast and now expects global vehicle sales to decline by 14 per cent in 2020. The forecast paints a considerably worse picture than for the 2008-09 global financial crisis, which resulted in approximately an 8 per cent decline in the car market over two years.⁴

While there are early signs that production is beginning to pick up again in China, the demand for intermediate inputs for automotive production in Europe and the United States will remain low. It may therefore take months before trade in automotive parts and motor vehicles returns to pre-pandemic levels.

The effects are particularly severe for countries such as Morocco, where 80 per cent of the automotive industry is directed towards European markets. In 2019, some 250 part and component manufacturers, employing more than 180,000 workers, generated EUR 7 billion, or about US\$ 7.5 billion, in turnover, accounting for 27 per cent of national exports.⁶

3 Ramalepe, P. (2020). "Nearly 30% nosedive in SA vehicle sales as coronavirus bites", news24, 2 April.

4 Financial Times, "VW hit by €2bn-a-week cash drain" [27 March 2020].

5 UNCTAD (2020). Trade and Development Report Update: Global trade impact of the coronavirus (COVID-19) epidemic, UNCTAD/DITC/INF/2020/1, Geneva, 4 March.

6 Challenge (2020). "L'impact sur l'économie nationale secteur par secteur", 27 March.

1.3 Factory closures

Wuhan, the city at the centre of the outbreak in China, is known as “motor city” as it is the home to such auto plants as General Motors, Honda Motor, Nissan Motor, the Peugeot Group (PSA), Renault and Toyota Motor. Production at these plants has stopped completely, and there are reports of plant closures across Asia. The epicentre of the pandemic has quickly moved to Europe and the Americas, where plants have also been closed down.

In the EU, 1.1 million of a total 2.6 million direct automotive manufacturing jobs were affected by plant closures in March 2020. Over half of these are German workers.⁷

In the Americas, General Motors, Ford Motor and Fiat Chrysler Automobiles (FCA) temporarily closed all factories in the United States without a specific end date.⁸ Automotive manufacturers recently announced the closure of factories in Argentina⁹ and Brazil.¹⁰

1.4 Employment

The overall impact on employment in the automotive industry and its supply chains is not yet known, but the ILO will continue to monitor the situation closely.

It is estimated that around 42 per cent of direct automotive manufacturing jobs in the EU are affected by the pandemic. These figures refer only to workers directly employed by car, truck, van and bus manufacturers. However, the pandemic is affecting all of the 13.8 million workers in the wider automotive supply chain in the EU.¹¹ Without new revenue, many companies will face significant liquidity problems in the short to medium term.

In the United States, the pandemic is affecting at least 150,000 unionized workers and hundreds of thousands of non-unionized workers in the industry.

The disruption in India’s automobile industry and its supply chain is likely to cost more than 60.8 billion Indian Rupees or US\$ 800 million over the last quarter of the present financial year (2019-20) and first quarter of the next financial year (2020-21). Contractual workers account for 50 per cent of the workforce and are particularly at risk in the near and medium term.¹²

In general, unprotected workers, including seasonal workers, temporary workers, the self-employed, casual and gig workers, are likely to be disproportionately affected by the virus and its economic impact, as they do not normally have access to paid sick leave, social security or health care.

It should be noted that COVID-19 comes at a time when the automotive industry is already facing significant disruption and displacement due to climate change, technological advances, demographic shifts and trade turbulence and uncertainty. Even before the pandemic, the production of new vehicles was stagnating due to weak sales. The shift to electric vehicles was expected to lead to the loss of 400,000 jobs in Germany alone.

The impact of these megatrends and drivers on decent work are discussed in the forthcoming ILO issues paper for the ILO Technical Meeting on the Future of Work in the Automotive Industry.

7 ACEA (2020). “COVID-19: Jobs of over 1.1 million EU automobile workers affected so far, data shows”, 31 March.

8 UAW (2020). “Statement of UAW President Rory L. Gamble on Ford’s decision to extend production reopening date”, News, 31 March.

9 Rostás, R. (2020). “Ford to suspend output in Brazil, Argentina from next week amid coronavirus pandemic”, Fastmarkets MB, 20 March.

10 Peroni, F. (2020). “Brazilian carmakers to stop production amid virus spread”, Fastmarkets MB, 21 March.

11 ACEA (2020). “COVID-19: Jobs of over 1.1 million EU automobile workers affected so far, data shows”, op. cit.

12 Banerji, S. (2020). “Coronavirus impact: Supply chain disruption to cost auto industry Rs 6,080 crore”, Business Today, 30 March.

► 2. Responses by constituents and partners

The action taken by the ILO's constituents – governments, employers' and workers' organizations – generally focuses on three immediate goals: protecting workers in the workplace; supporting enterprises, jobs and incomes; and stimulating the economy and employment to ensure that countries and sectors, such as the automotive industry, recover quickly and better.

2.1 Protecting workers in the workplace

The first priority is to protect automotive workers and employers and their families from the health risks of COVID-19. To further help protect the public from the pandemic, leading automakers across the globe have repurposed production to make ventilators, disinfectant and face masks.

2.1.1 Examples of measures to protect the health and safety of workers

- Several automakers have announced that they are taking extraordinary measures to protect workers. These include the provision of face masks and disinfectants, investment in health clinics, hospitals and infrastructure updates, action to combat misinformation and the sharing of technical solutions.
- IndustriALL Global Union, together with other global union federations, is calling for workers' representatives to be involved in processes to identify, prevent and mitigate threats to workers' health, rights and welfare and to develop and implement national, sectoral and workplace responses.¹³
- On 15 March, swiftly after the reporting of COVID-19 infected workers in automotive plants, the United Auto Workers (UAW), General Motors, Ford Motor and FCA formed a COVID-19/Coronavirus Task Force to implement enhanced protection for workers in the manufacturing and warehouse sections of all three companies.

2.1.2 Examples of the repurposing of production to protect public health

- In China, the automotive industry is helping to battle the spread of coronavirus. The Chinese car manufacturer BYD has created production lines at its Shenzhen facility to produce face masks and disinfectants. It is producing 300,000 bottles of disinfectant and 5 million masks a day, making it the world's largest producer of face masks.¹⁴
- In the United States, General Motors and Ford Motor are producing medical equipment, such as ventilators, masks and protective gear to combat the coronavirus pandemic. UAW members working in these plants do so on a voluntary basis and on half pay.¹⁵
- In Europe, Volkswagen, FCA, Škoda Auto and many other companies have also repurposed production to make masks and face shields for the protection of health workers and the general public.
- In India, the Mahindra Group has announced that it will help manufacture ventilators and other medical equipment. Mercedes has also announced that it will set up a 1,500-bed temporary hospital near the city of Pune in the state of Maharashtra for the treatment of COVID-19 patients. Similarly, Škoda Auto Volkswagen India has pledged funds for the establishment of a dedicated COVID-19 facility at the Sassoon General Hospital in Pune.¹⁶

2.2 Supporting enterprise, jobs and incomes

The economic impact of the pandemic on the automotive industry and workers is severe. Without substantial revenue, many parts and automotive manufacturers will face liquidity problems in the short to medium term. Available levels of finance vary across the industry, but some companies could face shortages within a matter of months.

In almost all major automotive-producing countries, governments and central banks have enacted fiscal and monetary stimulus measures to protect enterprises and workers. These include active fiscal policies, particularly social protection measures, targeted transfers and

¹³ IndustriALL Global Union (2020). "COVID-19: Urgent Economic Stimulus and Workplace Measures Required", Council of Global Unions, 12 March.

¹⁴ Attwood, J. (2020). "Coronavirus and the car world: Industry rallies to aid health workers", Autocar, 6 April.

¹⁵ UAW (2020). "COVID-19 UPDATE", 31 March.

¹⁶ Challawala, N. (2020). "More automakers extend support as Covid-19 cases rise in India", The Economic Times, 1 April.

automatic stabilizers, such as unemployment benefit, together with public investment and tax relief for low-income earners and SMEs.

Examples of measures taken by governments, employers and trade unions include:

- On 13 March, the Government of Indonesia provided the automotive industry with fiscal incentives, reducing corporate income tax by 30 per cent for key industries, including the automotive industry.¹⁷
- Honda Motor in North America paid the full wages of around 27,600 affected workers during the plant closure between 23 and 31 March.¹⁸
- The UAW has negotiated collective agreements with General Motors, Ford Motor and FCA on compensation for quarantined workers who are being monitored for COVID-19.¹⁹
- European automotive workers are generally protected by collective agreements. However, the recent restrictions on the number of people who can assemble makes it difficult for trade union members to exercise their right of freedom of association and to protect themselves from the risk of exposure to coronavirus.²⁰

2.3 Stimulating the economy and employment

Governments worldwide are implementing economic responses to limit the human and economic impact of the COVID-19 pandemic. The International Monetary Fund (IMF) lists economic responses in 193 economies to date.²¹

In a statement on 26 March, the governments of the Group of 20 (G20) committed collectively to: protect lives; safeguard people's jobs and incomes; restore confidence, preserve financial stability, revive growth and recover stronger; minimize disruptions to trade and global supply chains; provide help to all countries in need of assistance; and coordinate on public health and financial measures.²²

The ILO is advising governments on the extension of social protection for all and on measures to promote employment retention, short-time work, paid leave and other subsidies to ensure that economies, labour markets and industries become stronger, more resilient and sustainable when the pandemic recedes.

It is currently unclear how many of these macroeconomic policies and measures will have an impact on the automotive industry, and particularly whether and how SMEs in the supply chain will be able to access financial assistance, and whether major producing countries will be able to benefit from their implementation.

2.4 Relying on social dialogue for solutions

Social dialogue is key to building the confidence and trust needed to ensure that these policy measures are effective. The power of social dialogue for the identification of solutions is reflected in the Joint Statement on COVID-19 issued by the International Organisation of Employers (IOE) and the International Trade Union Confederation (ITUC) on 23 March 2020.²³

In many parts of the world, the automotive industry benefits from effective dialogue between governments, employers' organizations and trade unions at the national, sectoral and enterprise levels. Examples of how ILO constituents are using social dialogue to find solutions include:

- The Government of Japan, together with the Japan Automotive Manufacturers Association (JAMA), set up a body, the Novel Coronavirus Countermeasures Examination Automobile Council to monitor the impact of the epidemic on automotive supply chains and share necessary information between car manufacturers and auto part and component suppliers.
- On 20 March, IG Metall (the metal workers' union in Germany) and Gesamtmetall (the employers' organization in the metal working sector) in North Rhine-Westphalia entered into a COVID-19 response emergency collective agreement setting out arrangements for short-time working (work sharing) which can secure the net remuneration of employees at around 80 per cent of their wages. When day-care centres and schools are closed, parents with children up to the age of twelve can take eight days off for childcare, instead of the additional allowance provided for in the existing collective agreement. The emergency collective agreement is valid until the end of 2020.²⁴

17 Falak Medina, A. (2020). "[Indonesia issues second stimulus package to dampen COVID-19 impact](#)", ASEAN Briefing, 18 March.

18 Bruce, C. (2020). "[Honda shuts down U.S. auto production, workers get full pay](#)", auto1.com, 18 March.

19 Wayland, M. (2020). "[UAW negotiating paid leave for Fiat Chrysler workers, others regarding coronavirus](#)", CNBC, 13 March.

20 Gaisenkersting, D. (2020). "[Coronavirus crisis in Germany: Workers must demand factories and large enterprises be closed](#)", World Socialist Web Site, 17 March.

21 IMF, [Policy Tracker](#).

22 G20, [Extraordinary G20 Leaders' Summit Statement on COVID-19 in Saudi Arabia](#), 26 March 2020.

23 [Joint Statement on Covid-19 by International Organisation of Employers and International Trade Union Confederation](#).

24 IG Metall (2020). "[Sicherheiten für die Beschäftigten unter Metall- und Elektroindustrie](#)", 27 March.

► 3. ILO tools and responses

The ILO has proposed a four-pronged approach to addressing the impact of the pandemic: protecting workers in the workplace; supporting business, jobs and incomes; and stimulating the economy and labour demand.²⁵ This is underpinned by social dialogue to build trust among governments, businesses and workers for their continued commitment to the necessary policy responses and workplace measures.²⁶

International labour standards are crucial in times of crisis.²⁷ They contain specific guidance for governments, businesses and trade unions to adopt policy measures in such areas as: occupational safety and health, combating stigmatization and discrimination, hours of work, wage protection for workers in factories facing the suspension of production, termination of employment, unemployment benefit and guidance on responsible business practices for the automotive industry.

The ILO has also developed a number of general tools and responses to COVID-19:

- [An employer's guide on managing your workplace during COVID-19](#)
- [COVID-19 and the world of work Updated estimates and analysis](#)
- [Occupational Safety and Health Tips for Workplaces](#)
- [Social protection responses to the COVID-19 crisis around the world](#)
- [COVID-19: What role for workers' organizations?](#)
- [COVID-19 Employers and business membership organizations](#)
- [The six-step COVID-19 business continuity plan](#)
- [Enterprise survey tool: Assessing the needs of enterprises resulting from COVID-19](#)

25 ILO (2020). "COVID-19 and the world of work: Impact and policy responses", ILO Monitor 1st Edition, Geneva, 18 March.

26 ILO (2020). "What are the key policies that will mitigate the impacts of COVID-19 on the world of work?" COVID-19 Responses, Geneva, 19 March update.

27 ILO (2020). [ILO standards and COVID-19: FAQ: Key provisions of international labour standards relevant to the evolving COVID-19 outbreak](#), Version 1.2, Geneva, 23 March.

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