

## **The crisis and the future of the automobile industry: Putting the spark back into the automobile industry**

*Few of the delegates at the ILO's tripartite meeting on the auto manufacturing sector four years ago could have imagined the depth of the crisis which would be engulfing the industry today, as the global recession takes its toll on consumer demand for autos. Andrew Bibby looks at the last few months which have seen venerable names in great difficulties as well as unprecedented government intervention in the sector.*

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But the conclusions of that 2005 ILO meeting, and in particular the call that "social dialogue in the automotive industry should be a permanent feature of the industry" still seem relevant, given the key role which social partners have been playing in helping resolve the present crisis.

This has been especially striking in the United States, where trusts controlled by the auto workers' union UAW are due to become part-owners of both the reconstructed General Motors and Chrysler. In Europe, too, the European Metalworkers' Federation has joined forces with the European Association of Automotive Suppliers to create the European Partnership for the Anticipation of Change in the Automotive Industry, an initiative to maintain a sustainable industry with quality jobs.

In May this year the ILO hosted a special meeting of high-level experts to discuss ways forward for the sector out of the crisis. As the ILO's Director-General Juan Somavia put it, the challenge is to link long-term strategies for the sector with the immediate short-term solutions being put forward.

His challenge was picked up by several of the participants. Dr John Wormald from autoPOLIS, a leading consulting firm for the automotive industry, for example, stressed the need for a new business model for the industry, with longer product life cycles that would reduce the cost of a new car by up to 30 per cent. Another speaker, Barry Bluestone, professor of political economy at Northeastern University (US), linked this approach with the necessity of re-examining social relations in the sector, saying: "There is a need for a fundamental change in what the automotive industry builds and how we build these products, but also in the social relations between employers and unions".

### **Rebuilding the motor industry through social partnership**

Thomas A. Kochan, from the MIT Institute for Work and Employment Research (US), concurred: "We need more than a financial bailout. The challenge at hand is to forge a new social contract for the auto industry, to understand the workplace and to engage workers, employers but also other stakeholders," he told the meeting.

The story of the auto industry can be seen as a key element of the wider story of industrial manufacturing in the 20th century, as the development of assembly line working put into practice Taylorist theories relying on the separation of work into tasks. It was also an industry which saw both industrial strife and moves towards social partnership. In the case of GM, for example, the company's 1937 decision to recognize the UAW role as bargaining partner brought to an end a bitter strike in its auto plant in Flint, Michigan, and helped lead to a post-war period of economic and social success. In the 1950s, GM not only generated 3 per cent of the country's GNP but also established a normative model for the country that saw its employees rewarded with fair wages and social benefits.

The auto industry has today become a major source of employment worldwide. A recent ILO briefing paper suggests that in 2004 about 8.4 million people worked in automotive production (including the manufacturers and component firms) across the globe: around 2 million in Europe, over 1.6 million in China, 1.1 million in North America, 750,000 in both Russian Federation and Japan, as well as smaller but still significant numbers elsewhere. The global workforce total probably climbed to just under 10 million by the end of 2007, the ILO report adds.

By itself, this would be enough to make the current problems in the auto industry a significant cause for concern. But building motor vehicles also indirectly creates employment in other sectors, among

them the steel industry. According to a report last year by the US independent think tank the Economic Policy Institute, some 3.3 million jobs in the United States alone are dependent on the continuing fortunes of the country's car producers.

#### **Key issues raised at the ILO Round table**

Several major issues were highlighted during the Research Round table:

- The prevailing business model was linked to the broader global phenomenon of corporate financing mechanisms. This led some executives to focus upon profitability and shareholder value, sometimes to the detriment of medium-term investments in research and development. As a result, the auto industry still has not responded fully to the challenges of climate change and dependence on oil.
- Over-competition and price wars between auto manufacturers led to cost-cutting strategies that also affected their relationships with workers and components producers. For workers, this meant a greater reliance upon non-standard forms of work, such as contract and agency labour. For components producers down the supply chain, this meant greater pressure to reduce costs and absorb more risk.
- In cases where the business model of short-term profits and cost-shifting has overshadowed solid financial, technological and labour practices, this has generated vulnerabilities for companies and workers and also created frictions between the key players who instead should be partners in facing the crisis.
- The crisis is not impacting equally across countries, companies and employees. For example, the dramatic impact and restructuring under way in the US automotive industry is not fully mirrored in other mature markets in Europe or Japan. Meanwhile, a very different trend is observed in the major emerging economies with large domestic markets such as China, India and Brazil, which are experiencing rising output as well as increased domestic consumption of many durable goods, including vehicles. Mergers and acquisitions are expected to take place globally and some new domestic companies such as in India and China are expected to rise and become world players.

Or, more recently, their misfortunes. As the world knows, demand for autos has fallen as the economic crisis has taken effect. Global car sales have slumped from the peak of 70 million in 2007 to an annualized rate of about 56 million, according to one recent report. Research by the ILO has found that, comparing December 2008 data with data from December 2007, sales dropped by 50 per cent in Spain, 35 per cent in the US and 22 per cent in Japan. Global production in early 2009 was down 25 per cent on the January 2008. As the ILO's sectoral team point out, this could translate into major job cuts: "If companies are assumed to reduce jobs in proportion to production, then job losses within the coming year may exceed 1 million," they suggest.

It isn't just current workers who are affected. The UAW union draws attention to the large number of retired workers among its membership who rely for their retirement income and health-care benefits on their former employers.

It's just possible that the worst is now over, partly as government measures globally to help the industry begin to have an effect. Nevertheless, the auto industry internationally remains weak, and what emerges from this global recession is likely to be significantly different from the position before 2008. This is particularly true of GM and Chrysler. Both have been obliged this year to accept bankruptcy, seeking protection from their creditors through "Chapter 11" legal administration. The work of restructuring these two giants of the industry so they can emerge from bankruptcy and recommence trading was continuing as this issue of World of Work went to publication but the broad shape of the likely solution has become clear, in each case involving a high level of government intervention, together with the active support of the workforce and their unions.

In GM's case, for example, the way forward is anticipated to be the creation of a "new" GM, with the US and Canadian governments holding the majority of the equity of this new company. Existing GM bondholders, it is proposed, will receive an initial allocation of 10 per cent, with the remaining 17.5 per

cent of the equity held in a union-administered Trust Fund, which will provide medical benefits to retired employees. The “new” GM will be relieved of many of the liabilities that weighed down the old company’s balance sheet, with these unwanted parts of the business likely to remain in administration to ultimately be disposed of, as best they can.

If all goes well, this could enable a return to commercial success for a slimmed-down GM, maintaining auto production in many of its traditional manufacturing centres and saving at least some of the jobs which would otherwise be at risk. The deal is, inevitably, a compromise and not everyone is satisfied. Former shareholders in GM have seen their investment become worthless, and some bondholders argue that the deal undervalues their stake (although bondholders are set to acquire more of the equity later, through the issuing of warrant shares). The UAW points to sacrifices made by the workers, too, including modifications to the 2007 collective bargaining agreement negotiated with the company and to employee benefits. Retired employees will also be affected, according to UAW’s Legislative Director Alan Reuther. “Retirees will incur substantial, immediate reductions in their health care benefits,” he told US senators and congressmen in May this year.

A similar process has been undertaken in Canada, where the Canadian auto workers union CAW reached a provisional settlement with the company for a new collective agreement in May this year, as part of the overall restructuring. Cost-saving measures have been agreed in relation to wages, health benefits, work practices and productivity improvements, though CAW president Ken Lewenza says that the deal also helps protect many core benefits and to protect GM pensioners in Canada.

Looking ahead, it is clear that people in the 21st century will be driving different cars from those that were on the roads in the past century. US President Barack Obama has linked his government’s intervention in the auto industry with a strategic move to curb fuel consumption. The need for progress on developing cleaner vehicles and cleaner fuels has also been identified by the global union federation for the industry, the International Metalworkers’ Federation, in a statement by its executive committee in February.

### **Turning the crisis into an opportunity**

“The economic crisis could be turned into an opportunity to reduce the industry’s carbon footprint and create green jobs,” says the ILO briefing paper. “Many measures already adopted by governments favour investments in more environmentally friendly vehicles. Producing those vehicles requires more investment in research and development and highly skilled employees. Therefore special emphasis should be put on skills training.”

There is evidence that change is already beginning to take place: in an important first for low-emission “green” cars, Honda’s new hybrid Insight car (which uses both petrol and electric power) outsold its conventional rivals in the Japanese home market for the first time in April this year.

The auto industry is on a journey, in other words, which will move it away from dependence on the gas-guzzling high-emission vehicles of the past. But will the events of recent months, and in particular the role which unions have played in the restructuring processes, lead to other changes? Significantly, the Financial Times on 28 May reported on renewed interest among unions in Germany in the idea of negotiating a stake in the company’s ownership. “Leading the way is the cars sector whose weakened condition is forcing management and workers to embrace new ideas,” it explained, going on to report on moves by Daimler to consider converting an employee profit bonus scheme into a capital stake.

As the world looks to rebuild the economic system in ways which avoid the damaging effect of short-term investor-led pressure for immediate profit, there is scope here for more debate. The Financial Times article quoted the remarks of Erich Klemm, head of Daimler’s works council, to a trade union conference recently: “We are the only shareholders who have a long-term interest in the company, in contrast to those who only want to make a quick profit.”