



The Automotive Industry: A Research Roundtable

Geneva, 20-21 May 2009

SUMMARY

1. Background and participants¹

1. This 1.5 day meeting was jointly organized by the Social Dialogue Sector and the International Institute for Labour Studies. Over 20 experts on the automotive industry from universities, international organizations, policy think tanks, employers' and workers' experts, the IOE and the ITUC took part in the discussions chaired by Professor Barry Bluestone from Northeastern University (USA).

2. Papers, presentations and discussions

2. The roundtable was divided into three sessions. The first session ("Where are we now?") looked at the crisis in major countries and regions. The second session ("The auto industry reinvented") focused on the future of the auto industry and the third session ("From crisis to the new auto industry") attempted to map the road from the present crisis to the new auto industry in the future. The experts had prepared a number of papers and presentations and each session included an extensive debate, moderated by the Chair. A full report, based on the papers, presentations and discussions, will be prepared later

3. Key issues raised during the Research Roundtable

3. The crisis of the automotive industry is a systemic crisis, not just a cyclical crisis. Given the highly globalised nature of automotive production and sales, the current fall in demand and the credit crunch have impacted automotive manufacturers and components producers around the world. Nevertheless, the severity of this crisis varies across countries, companies and workers. The crisis also masks deeper structural shifts that have evolved within the automotive industry over recent years.
4. Taking into account this context, it is not surprising that the scope and impact of country-level policy responses may vary, depending upon the respective structural strengths and vulnerabilities of different companies and in different countries. In many ways, the crisis may merely accelerate trends already underway in the global automotive industry – but at a high cost to domestic finances, to the survival of automotive component producers down the supply chain (comprising many medium and small firms) and to workers (reduced total workforce or more vulnerable terms of employment).
5. The future shape, geographical diversity, as well as scale and quality of employment in the global automotive industry will be determined largely by the way in which

¹ See Annex I for the List of Participants.

different policymakers, companies and representatives of workers respond not only to the crisis at hand, but also to the underlying structural challenges of the industry.

6. Several major issues were highlighted during the Research Roundtable. First, the prevailing business model (pursued especially by the US automotive manufacturers) was linked to the broader global phenomenon of corporate financialisation. This led some executives to focus upon profitability and shareholder value sometimes at the detriment of medium-term investments in R&D and innovations that could contribute further to improve quality, productivity and product designs, raise fuel efficiency of vehicles and develop alternative fuel sources for motor vehicles. As a result, the auto industry still has not responded fully to the challenges of climate change and dependence upon oil.
7. Second, overcompetition 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 (i.e. holding inventories, making productive expenditures without a guaranteed commitment to purchase future products and receiving payment for goods only after delivery). As a result, cost-cutting strategies translated into reduced investments and more non-standard employment practices throughout the automotive supply chain. As figures show, the larger share of bankruptcies and worker layoffs have been among component suppliers, rather than assemblers. For example, auto assemblers in Brazil have reduced their workforce by less than 5% but suppliers by more than 11% between October 2008 and February 2009.
8. Third, 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.
9. Fourth, the crisis is not impacting equally across countries, companies and employees. For example, the dramatic impact and restructuring underway 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 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.

4. Employment Impacts of the Crisis

10. The sharp impact of the crisis upon jobs in this crucial industry has alarmed governments. Seasonally-adjusted employment figures from the US show a 25% year-to-year decline in vehicle and parts manufacture and the crisis is expected to deteriorate further in May-June 2009. In Japan, regular employment in the auto industry dropped by over 10% between 2007 and 2008. Developing countries reliant upon export production have also suffered, such as Thailand where jobs were cut by 20% (representing 59,000 jobs in this industry).
11. It must be recalled that the crisis is reinforcing structural fragilities in the global automotive industry. In the years prior to the crisis, between 2001 and 2008,

employment in US motor vehicle and parts manufacturing declined by nearly 30% (involving 350,000 jobs) nearly 5% in services linked to the auto industry.

12. Data available indicate that non-standard workers are among those hardest hit by the crisis. Such figures may in fact underestimate the scale of job loss where informal employment relations prevail. In every country, temporary workers seem to be the first to lose their jobs. In India, where direct employment in the auto industry declined by less than one percent in the fourth quarter of 2008, while the number of contract workers dropped by over 12% in the same period.

5. Policy Measures Underway

13. Governments have intervened to provide support to the auto industry – the bailout of the US auto industry has been the most visible among these packages. However, current responses to the financial crisis provide liquidity to the industry, but largely overlook its deeper structural problems. Most measures fail to set conditions which will compel the industry to address the need for greater investments in R&D and development of innovations necessary to make vehicles more fuel-efficient and powered by less-polluting alternative fuel. Government regulations and tax policies are important tools that can help to re-direct the path of this industry away from the financialisation business model to focus more upon longer-term investments and product development. A more innovative industry will also raise skills requirements of workers and imply new training needs.
14. Specialists in the Research Roundtable noted that government measures were often uncoordinated and raised concerns over the growing risk of protectionism. Scrapping schemes, such those adopted by Germany, have been effective in boosting demand and also renovating the vehicle fleet, but were criticised for merely shifting forward demand and causing future cyclical problems when such schemes come to an end. Furthermore, financial assistance by governments is directed mostly toward the assemblers, rather than toward the entire supply chain, which would have a greater and more integrated impact upon sustaining supplier firms and employment, not to mention support innovation within the industry as a whole.
15. Companies have responded with measures such as shorter working days and salary reductions, in order to avoid layoffs. For example, in Germany, the number of employees in the auto industry dropped by 2.1% (far lower than other manufacturing industries) from January to March 2009 while the salary sum was cut by 10.8%. These figures would be much higher, if not for the shortened working time applied widely in the industry. However, greater job losses are possible if companies discontinue such arrangements.

6. The Way Forward

16. The crisis also provides an opportunity. For example, the demand projections² for the next decade point toward significantly higher global demand for vehicles. This new growth will shift the geography of the industry, as demand rises in developing countries, particularly in Asia, while markets in the OECD countries become saturated. By 2015, according to CSM Worldwide³, global production is expected to grow by 20%. Yet, highest growth rates will be located in South Asia (65%) and

² See page 8 for graphs.

³ CSM Worldwide is a global organization monitoring the global automotive market supplying over 85% of the world's top OEMs and suppliers with automotive forecasting and market intelligence.

China (56%) and lowest in Japan and Korea (2%) and Europe (6%). Predictions regarding a recovery of the auto industry also highlight the shifting locus of dynamism in this sector. North America is predicted to recover 2008 production levels in 2012 and Europe by 2014. Meanwhile, Japan and South America are predicted to recover these levels by 2011. In contrast, South Asia is expected to recover as soon as 2010, while China is predicted to grow every year.

17. New demand also involves different tastes and transportation needs, which may further spur innovation in the industry, as well as more fuel-efficient and less polluting vehicles and alternative types of vehicle transportation. Asia is experiencing rising demand for low-speed vehicles, electric bicycles and scooters. Asian producers are responding to this market opportunity first. Furthermore, the demographic shift toward an ageing population and a trend toward moving from suburbs back to urban areas will boost demand for public transport.
18. The problems of the industry should be widely discussed, engaging shareholders, governments, communities, workers and their unions. A useful lesson of history teaches us that the conversion from civil production after World War II was made possible by engaging workers and their unions in the discussions and decisions regarding the way forward.
19. Participants in the Research Roundtable recognised that a revitalised automotive industry that is more responsive to consumers as well as environmental needs will create new employment opportunities. The European Metalworkers' Federation and European Association of Automotive Suppliers (CLEPA) are adopting this forward-looking approach by implementing a joint project (entitled "Anticipation of Change in the Automotive Industry"⁴). This project aims to create an early warning system to avoid negative effects of restructuring for firms as well as workers. In addition, the project will identify and study good practices in raising skills and employability.
20. This type of long-term strategic thinking must be integrated into the auto industry's business model, by involving employers, workers and governments via social dialogue in the workplace and at the enterprise, national and international levels. One question concerns the space for social dialogue, as conceived along the lines of either the European or North American automotive industries and whether it may look different among the diverse set of new players in the global automotive industry.

7. Follow-up of the Research Roundtable

- I. Research Roundtable participants committed to forming a Knowledge Network, coordinated by the ILO, to continue to monitor the automotive industry crisis. This new Knowledge Network is already in motion, as participants have started inviting ILO staff and their new KN colleagues to fora and symposia they are organizing.
- II. The Research Roundtable should be assessed with the constituents, in order to plan further activities.

⁴ For further details, see the website: <http://www.anticipationofchange.eu>

ANNEX I

THE AUTOMOTIVE INDUSTRY: A RESEARCH ROUNDTABLE Geneva, 20-21 May 2009

List of Participants

EXPERTS INVITED BY THE ILO		
NAME	TITLE	ORGANIZATION
Dr. Stefano Ammirati	Associate Director, Head of Automotive Industry, World Economic Forum	World Economic Forum
Prof. Barry Bluestone	Professor of Political Economy, the founding director of the Dukakis Center for Urban and Regional Policy (CURP), and the Dean of the School of Social Science, Urban Affairs, and Public Policy at Northeastern University.	Northeastern University, USA
Prof. Stefan Bratzel	Head of Center of Automotive Management at the University of Applied Sciences (FHDW) Bergisch Gladbach.	Germany University of Applied Sciences
Ms. Esther Busser	Assistant Director, ITUC Geneva office	International Trade Union Confederation (ITUC)
Prof. Anthony D'Costa	Professor in Indian Studies and Research Director at the Asia Research Centre, Copenhagen Business School. He has written on the global steel, Indian automobile, and Indian IT industries. He is currently working on contemporary capitalism and the international mobility of IT professionals among India, China, Japan, and the US and co-authoring a photo-based book on Indian industrialization	Copenhagen Business School, Denmark
Mr. Jean Dejardin	IOE, Adviser	International Organization of Employers (IOE)
Mr. Koji Endo	Analyst specialized in the automotive industry at Credit Suisse Tokyo office. He is also probably the most quoted automobile analyst in Japan among the newspapers and magazines.	Credit Suisse, Japan
Dr. Antonio Ferigo	He has been member of IMF secretariat. Currently, he collaborates with Italian metalworkers union in the research department.	Italian Center of Social Studies
Mr. Marc Greven	Director for Legal Affairs and Assistant to the Secretary General of ACEA (European Automobile Manufacturers Association), the Brussels-based association representing the common interests of all major European manufacturers of passenger cars, trucks and buses at EU level.	ACEA (European Automobile Manufacturers Association)
Dr. Nobuya Haraguchi	Research and statistics branch	UNIDO
Prof. Susan Helper (through phone)	Professor of Economics at Case Western Reserve University in Cleveland, Ohio. She is also a Research Associate of the National Bureau of Economic Research (NBER) and the MIT International Motor Vehicle Program (IMVP). Her research focuses on the impacts of collaborative relationships, between suppliers and customers and management and labor.	Weatherhead School of Management, Case Western Reserve University USA

Prof. Bernard Jullien	Professor at Université Montesquieu - Bordeaux IV, he is director of GERPISA, an international network of research on the automobile industry.	Université Bordeaux IV, France
Dr. Thomas Kochan (through video)	George Maverick Bunker Professor of Management at MIT's Sloan School of Management and Co-Director of both the MIT Workplace Center and of the Institute for Work and Employment Research.	MIT, United States
Prof. John Kwoka	Finnegan Distinguished Professor of Economics at Northeastern University. He is also a Research Fellow of the American Antitrust Institute, a member of the Board of Directors of the Industrial Organization Society, a member of the Editorial Board of the Review of Industrial Organization, and an ENCORE Fellow.	Northeastern University, USA
Mr. Wolfgang Lange	Communications Officer CLEPA - European Association of Automotive Suppliers	European Association of Automotive Suppliers
Prof. John Paul MacDuffie (through video)	Professor of management at Wharton School of University of Pennsylvania. Co-director of International Motor Vehicle Program (IMVP). Research Areas: Flexible/lean production systems; organizational learning and knowledge transfer; modularity and "build-to-order"; managing organizational and technological change; collaborative design and production; international comparative human resource strategies; the changing employment contract.	Wharton School, United States
Dr. Heinz-Rudolf Meißner	Research Fellow at the Social Science Research Center Berlin (WZB). He has extensive research experience in the automotive as well in the information and communication industry. He is currently working on a research project, "Anticipation of Change in the Automotive Industry" - a joint project of CLEPA and EMF in the context of the "European Partnership for the Anticipation of Change in the Automotive Sector".	Social Science Research Center Berlin, Germany
Prof. Mario Sergio Salerno	Full Professor and Head of the Production Engineering Department, University of São Paulo (USP). He is member of the steering committee of Gerpisa International Network (Permanent Group for the Study of the Automobile Industry and its Employees). South American editor of The International Journal of Automotive Technology and Management	University of São Paulo, Brazil
Ms. Natascha Weisert	Industrial Policy and Private Sector Development Branch	UNIDO
Dr. John Wormald	Managing partner of autoPOLIS, a consulting firm which he founded in 1993. The firm provides strategic analysis and advice to companies in the world automotive industry, including vehicle manufacturers, components suppliers, vehicle and parts distributors, service providers, financial institutions and government agencies.	Autopolis, United Kingdom
Dr. Wayne Xing	Founder of China Business Update (CBU), a publishing, market intelligence and consulting firm in operation since 1994. Based in Amherst, Mass., CBU has offices in Beijing and Shanghai as well as correspondents and research associates in major automotive manufacturing cities in China.	China Business Update, USA

PARTICIPANTS FROM THE ILO	
Mr. Juan Somavia	Director-General
Mr. George Dragnich	Executive Director, Social Dialogue Sector
Mr. José Manuel Salazar-Xirinachs	Executive Director, Employment Sector
Mr. Raymond Torres	Director, International Institute for Labour Studies
Ms. Elizabeth Tinoco	Director, Sectoral Activities Department
Mr. Dan Cunniah	Director, Bureau for Workers' Activities
Mr. Philippe Egger	Deputy Director, Director-General's Office
Mr. Jean-Paul Sajhau	Sectoral Activities Department
Ms. Anne Posthuma	International Institute for Labour Studies
Mr. Christian Hess	Bureau for Employers' Activities
Mr. David Seligson	Sectoral Activities Department
Mr. Martin Hahn	Sectoral Activities Department
Ms. Layidua Pineda Alonso	Sectoral Activities Department

Figure 1: Light Vehicle Production - Worldwide (000's)

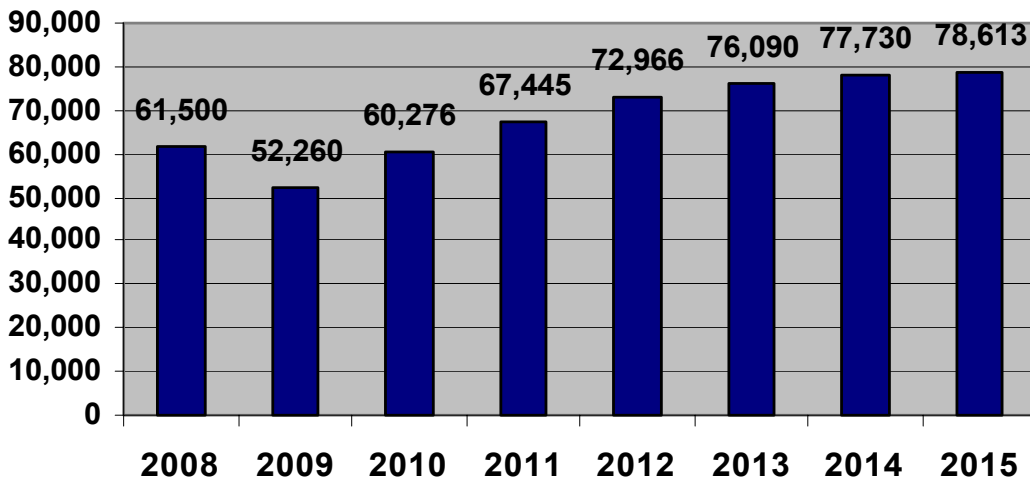


Figure 2: Growth in Light Vehicle Production (2008-2015) by Region

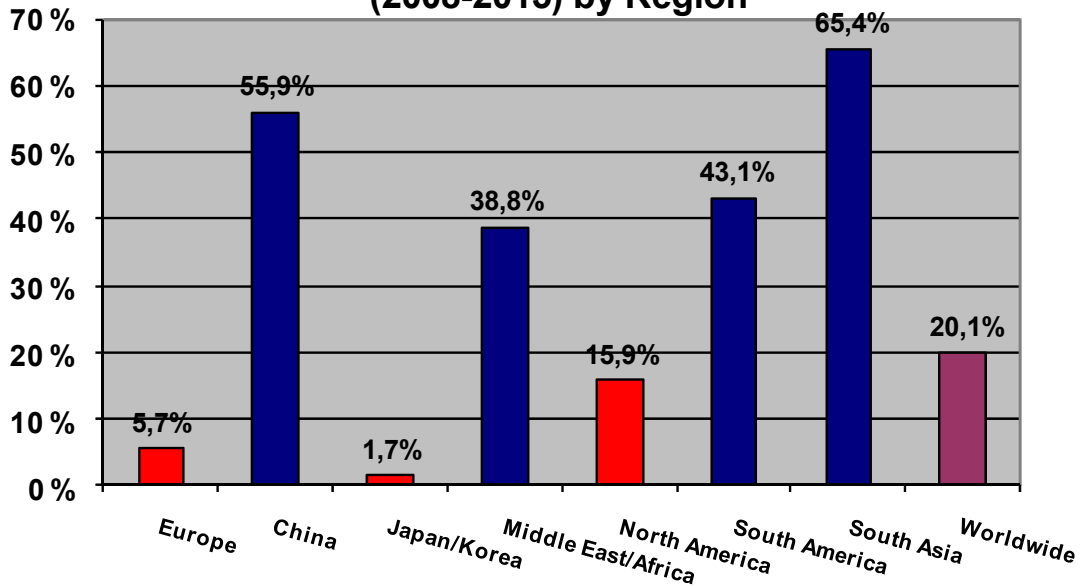


Figure 3: Percentage Change in Share of Worldwide Light Vehicle Production (2008-2015)

