



Recent restructuring trends and policies in the automotive sector

Background paper



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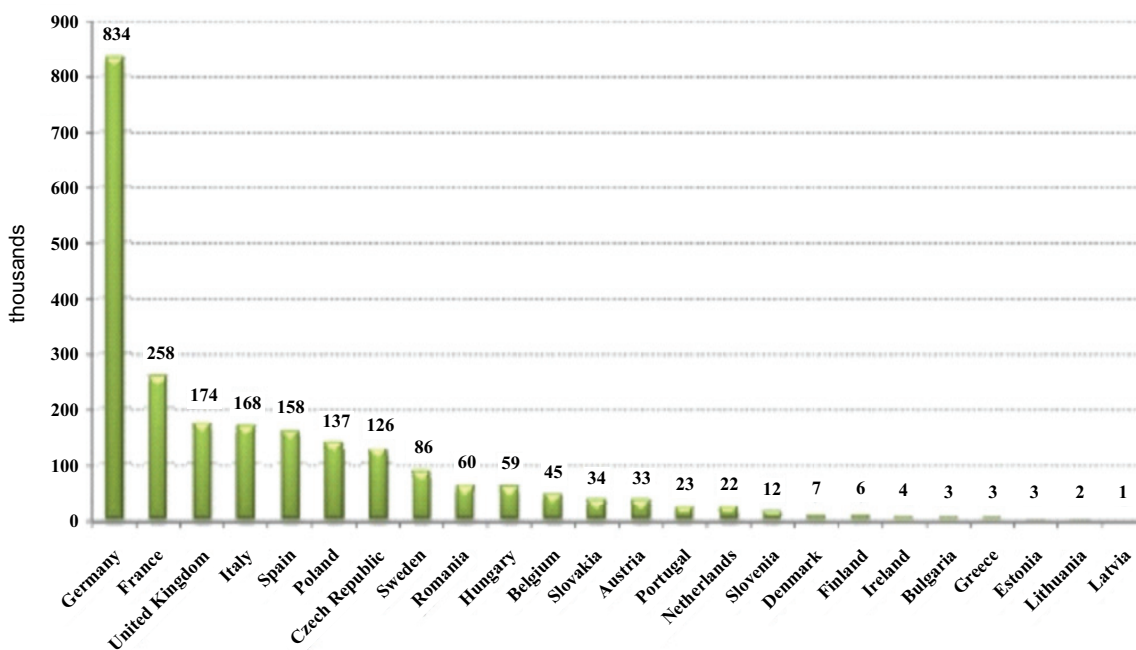
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Introduction

The automotive sector is of immense importance in developed economies. Simply stated, a car is, after housing, the most expensive purchase that practically all consumers buy or aspire to buy. Automotive manufacturing accounts for just under 7% of all manufacturing in the European Union. Together with the extremely valuable supply chain, branch estimates claim that one third of all EU manufacturing relies on this sector. This does not include the vehicle distribution and financing sector or indeed the many other jobs reliant on automotive production. Furthermore, it is the leading industrial contributor to net external EU trade, has an annual research and development budget of €20 billion and vehicle taxes amount to €360 billion annually. Figure 1 shows the distribution of employment in the automotive sector in Europe.

Figure 1: *Employment in the automotive sector in the EU IN 2007*



Source: *European Labour Force Survey*

As cars are generally bought on credit, car manufacturing was one the sectors hit hardest and earliest in the current recession. The availability of credit is even more crucial for trucks, the other major product in the automotive sector. The depth of the recession and the concerns about when a recovery will come have generated huge uncertainties and demand has almost universally plummeted. However, it should be underlined that the current difficulties are not just cyclical. Even before the advent of the recession, many experts claimed that there was significant over capacity in car manufacturing in Europe – ranging between 20%–30% – particularly at the lower end of the market.

More fundamentally, the automotive sector, as a major contributor to carbon emissions, is at centre stage of the climate change debate. The need to reduce these emissions provides a serious challenge to the sector but also may provide for its regeneration. Some argue that it will take very substantial public spending to create a sustained recovery from recession. It is also argued that such spending must be in line with longer-term strategic goals. The reduction of carbon emissions is perhaps the most important long-term goal of all. The market alone cannot deal with environmental externalities and the role of public policy is indisputable. Indeed, in monetary terms loans, transferred from the European Investment Bank (EIB) largely through the European Clean Transport Facility (ECTF) to the automotive sector, represent the major European policy response to the current crisis.

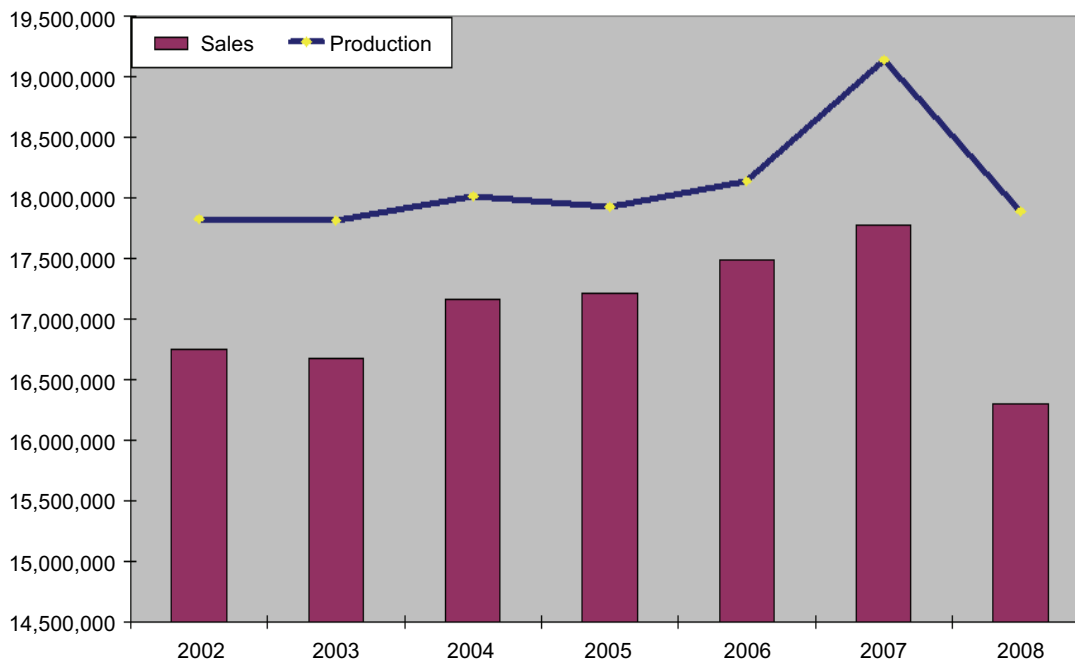
However, the purpose of this report is not to provide an analysis of the long-term perspective on the sector or an evaluation of European policy. It is largely a descriptive account of European and Member State initiatives, which focuses on recent employment and restructuring events and – in particular – measures to deal with the reduced demand while maintaining employment levels. Throughout, it highlights measures recently taken at European level.

Policy responses to the crisis in the automotive sector continue apace. The annual report for 2009 of Eurofound's European Restructuring Monitor (ERM), due to be published in November, will update and expand upon the content of this report.

Recent developments in the automotive sector

Figure 2 shows that, since the turn of the millennium, European production and sales for cars and light vehicles showed a trend increase up to 2007 at historically high levels.¹

Figure 2: Car and light vehicle sales in Europe, 2000 to 2008

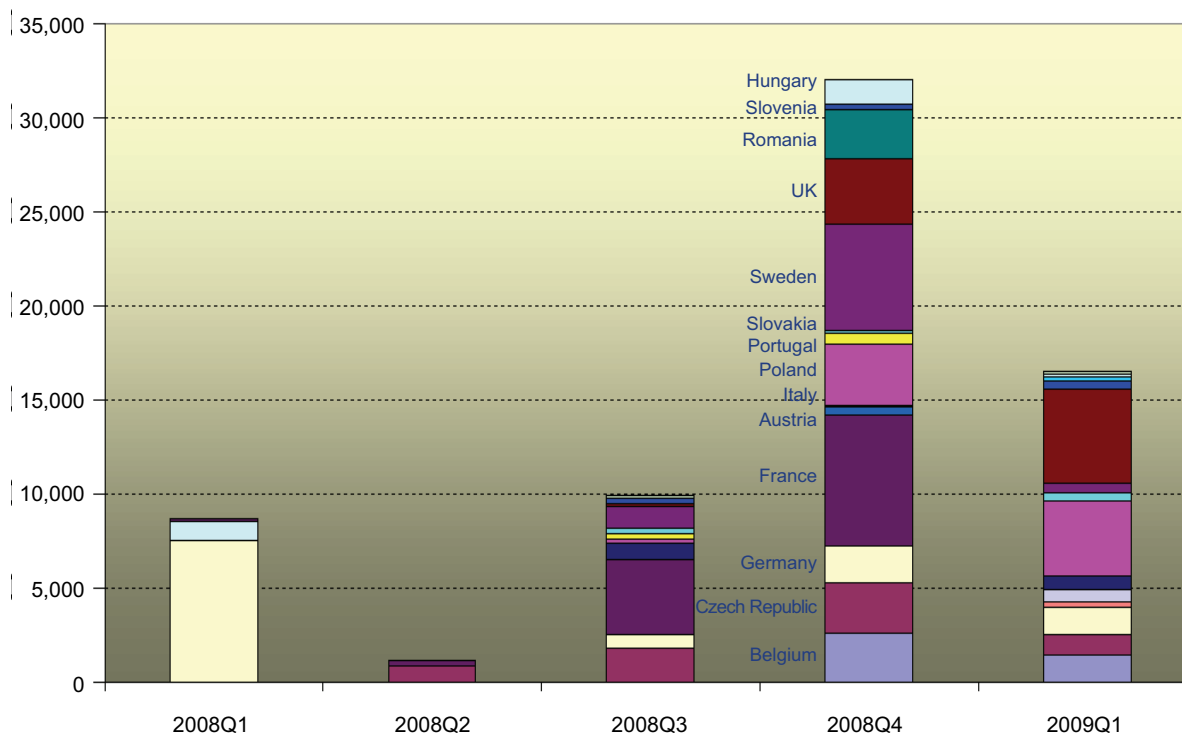


Data on the new registration of passenger cars in Europe show a continual and increasing rate of decline up to the end of 2008. While the rate of decline slowed in the first three months of 2009 compared with the corresponding months in 2008, the rate of decline increased again slightly in April (to 12.3%). Thus, four months into 2009, new car registrations in Western Europe fell by 15.1%. Germany was the only market in which the number of new registrations rose (by 18.4%). In Italy, the market contracted by 16.3%, the UK by 28.5%, France by 4.8% and Spain by 43.7%. In the New Member States, the April figures fell by 21.4%. While Poland, the Czech Republic and Slovakia posted growth – of 2.4%, 19.0% and 43.5% respectively, registrations in Hungary and Romania fell sharply – by 51.5% and 51.8% respectively (Source: European Automotive Manufacturers Association).

¹ The difference between the European sales and production figures are exports and inventories.

Figure 3 shows the extent and country distribution of announced job loss in the European automotive sector since the first quarter of 2008. Most of the job loss took place in the third quarter of 2008. While job loss in the first quarter of 2009 is still at a high level, it is appreciably lower than the peak in the previous quarter. Given the prominence of this sector in Germany, it is very striking that job loss in Germany has been significantly lower than in, for example, France, the UK and even Sweden. Given the relatively small size of this sector in Sweden (compare Figure 3 with Figure 1), the job losses there have been particularly severe, mainly in the various companies owned by either Volvo Trucks or Volvo Cars (owned by Ford). The relatively positive development in German is mainly attributable to the extensive use of short-time working, which is taken up in some detail in the last two sections of this report.

Figure 3: *Announced job loss in the EU automotive sector, first quarter 2008 to first quarter 2009*



Source: *European Restructuring Monitor, 2009*

In spite of the difficult situation of the European automotive sector, there are some cases of job creation in the sector. After having introduced a four-day working week in the last quarter of 2008, Skoda reintroduced a five-day working week and is considering starting extra shifts in the Czech Republic due to growing demand for small cars, triggered by the French, Italian and German scrappage schemes. In May and June 2009, the German car maker Daimler plans to hire 300 employees for its Hungarian plant (to be finished in 2010) and Renault has announced that it will create 400 jobs by moving excess production in Slovenia to its French site, to meet extra demand for Clio Campus vehicles.

Some positive news from Skoda

Skoda, Volkswagen's subsidiary in the Czech Republic, had initially planned a production level of 1,200 units per day; it has now reached a production rate of 1,600 units per day, in spite of the difficulties many other European car manufacturers experience during recession. In 2008, the deliveries grew by 7.1% or almost 44,500 vehicles as against 2007.

The company, producing relatively small engines and transmissions, benefits from the scrappage bonus introduced in some of the European countries such as France, Italy and Germany, which results in a higher demand for small vehicles: for such vehicles, the relative advantage of the bonus is higher.

In Germany, for example, the sales and registrations of Skoda vehicles in February 2009 considerably outnumbered the respective figures for February 2008, and Skoda (as well as other Volkswagen brands) is the most popular brand among scrappage applications. Furthermore, Polish car dealers experienced an increase in vehicle sales of 1.2% in the first quarter of 2009 compared with the same period in 2008; this is attributed to German buyers using the scrappage bonus and taking advantage of the weak *zloty*. It is estimated that without the influx of German buyers, car sales in Poland would have fallen by 6% in February and even more in March 2009.

As a response to this increased demand, the employment of up to 1,000 new temporary workers and the launch of work on Saturdays was announced in March 2009.²

Policy responses at EU level

The cornerstone of the European policy response so far is to be found in the European Economic Recovery Plan (EERP). There are two prominent measures in the EERP: the widening of the scope of the European Globalisation adjustment Fund (EGF) and the increased activities of the European Investment Bank (EIB).

European Globalisation adjustment Fund

Even before the current crisis, employees in car manufacturing have received assistance from the EGF. Indeed the first awards by the EGF were in the Peugeot and Renault cases. Table 1 lists the EGF cases that have so far (i.e. in 2007 and 2008) facilitated structural adjustment in the automotive sector.

Table 1: *European Globalisation adjustment Fund cases in the automotive sector*

Enterprises	Funding	Status
Peugeot suppliers	€ 2.5 million	paid 13.12.07
Renault suppliers	€ 1.3 million	paid 13.12.07
Lisboa-Alentejo (Ptl & Ma)	€ 3.1 million	paid 29.05.08
Delphi (Spain Lithuania)	€ 10.7 million	paid 3.12.08
Castilla y Leon & Aragón	€ 2.7 million	pending decision by the European Parliament

² Škoda Auto fact sheet: http://www.eurofound.europa.eu/emcc/erm/static/factsheet_13327.htm

Currently, there is an application waiting for final approval pertaining to the two adjacent Spanish regions of Castilla y León and Aragón. The application was received by the Commission from the Spanish authorities on 29 December 2008 and was complemented by additional information received on 8 January 2009. The application argued that redundancies result from major structural changes in world trade patterns (because of both increased imports and relocation to countries outside the EU), which have led to serious economic disruption, affecting employment and the local economy. In 2008, between 31 January and 31 October, 1,082 redundancies took place in 12 enterprises supplying the automotive sector. The Commission has proposed that Parliament award €2,694,300 through the Fund (in total €3,384,300 including technical assistance). The budgetary procedure began on 26 March 2009. The decision from the Parliament is expected to be positive and to come soon. The measures are to be directed to 588 employees in four of the larger enterprises. The measures include typical active labour market policy measures such as career guidance and job search assistance, generic and specific training and incentives to provide for the rapid re-integration of workers into the labour market. The authorities will set up a specialised team to administer these schemes.

Other applications from the sector may be expected. For example, Swedish Employment Minister Sven Otto Littorin is considering a Swedish application. The widened scope of the EGF, which should be adopted soon (essentially to cover the current economic crisis), is likely to lead to appreciably more cases than has been witnessed so far.

European Investment Bank

In terms of funding, the activities of the European Investment Bank (EIB) constitute the main contribution to the troubled European automotive sector. Under the broad economic recovery package announced in December 2008, the EIB is raising its total lending by an annual sum of €15 billion for both 2009 and 2010. The increase is directed towards three main areas: helping small and medium-sized enterprises (SMEs) and mid-cap firms; supporting Europe's more marginalised regions in their convergence; and contributing to the fight against climate change. The latter goal includes the European Clean Transport Facility (ECTF), which was the main means through which loans were made to the automotive sector.

The automotive sector has been a major beneficiary of recent EIB loans. On 7 April 2009, the Bank's Board of Directors approved loans amounting to €866 million to help design and build cleaner cars with lower CO₂ emissions. This adds to the €3.6 billion in loans approved since December 2008 for European car and truck makers. Further loans planned for submission to the Board in May and June 2009 would reach an even wider range of beneficiaries, including component suppliers, and bring the total approved lending to the motor industry to more than €7 billion since December 2008, when the EIB launched a support package to aid Europe's economic recovery from the current crisis.³

³ This is according to an EIB press release dated 7 April 2009.

Table 2: *EIB loans to the automotive sector, or to related sectors, since 2008*

Name	Country	€ million
Powertrain R&D (SFF-RSFF)	Austria	20
PSA R&D Euro 5 and 6 (Peugeot)	France	400
Renault Electric vehicle RDI*	France	400
Michelin R&D	France	300
LISI Group innovation	France	27.5
City Car RDI (Phase 1) – project of major car manufacturer	Germany	400
Volkswagen Antrieb RDI	Germany	400
Automotive engine and transmission RDI – Research and engineering activities concerning automotive engine and transmission systems	Germany	400
Autoeuropa RDI – Design and production launch of two new passenger car models in Palmela (Portugal) and at R&D centre in Wolfsburg (Germany)	Germany	95
Piaggio R&D	Italy	150
Truck and bus tyre plant (Bridgestone)	Poland	100
Autoeuropa RDI – Design and production launch of two new passenger car models in Palmela (Portugal) and at R&D centre in Wolfsburg (Germany)	Portugal	155
Volvo Trucks Clean Engines R&D	Sweden	400
Scania Trucks RDI	Sweden	317.9

Source: *Database on EIB website*

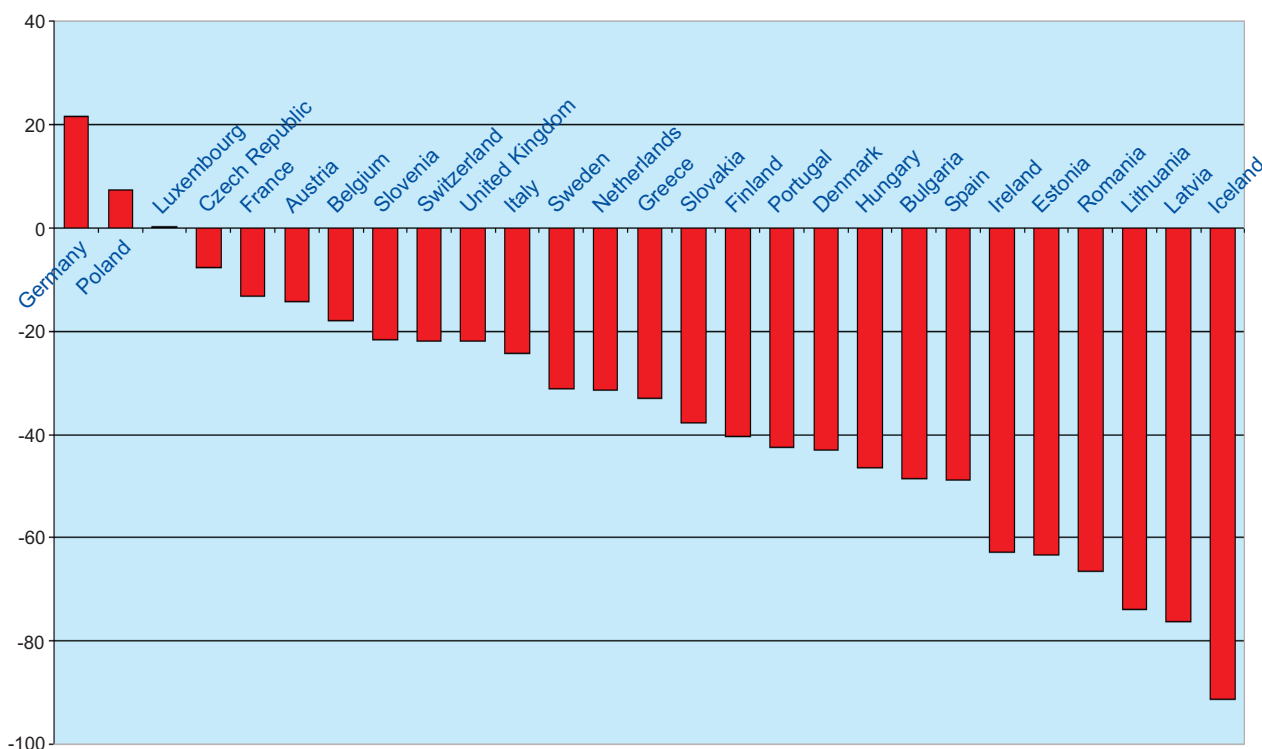
Notes: *RDI stands for 'research, development and innovation'.

Policy responses at Member State Level

Scrappage schemes

Several countries have adopted scrappage schemes, which award a cash premium to the purchaser of a new car in exchange for an old one. While there may be environmental benefits to such schemes, and they are often marketed as such, many were introduced or adapted recently to address the current problems in the sector. Much attention has been devoted to the German scheme. Not only is Germany by far the largest EU producer of cars and the largest market for them, but the scrappage scheme appears to have been very successful here. Figure 4 shows the percentage change in car registrations in February 2009 compared with February 2008.

Figure 4: Percentage change in new car registrations between February 2008 and 2009



Source: *European Automobile Manufacturers' Association*

The massive drop in registrations in practically all Member States provides a striking contrast to the situation in Germany. The German premium amounts to €2,500. Originally €1.5 billion was allocated to the scheme, but it hugely exceeded expectations and by April 2009, 1.2 million applications had been made. An extra €3.5 billion is to be allocated to the scheme, permitting a take-up of two million cars. A number of other countries – France and Italy, for example – have also implemented scrappage schemes (Table 3).

Table 3: *Scrappage schemes in selected Member States*

	Target group	Conditions – old car	Conditions – new car	Bonus	Time horizon	Miscellaneous
Austria	Private individuals	First registered before 1 January 1996; registered for at least one year with the present owner Must be in good condition	New or registered for car dealers' purposes Must meet 'Euro 4' European emissions standard	€1,500	1 April – 31 December 2009	A maximum of 30,000 cars can be scrapped under the scheme A maximum of €45 million may be spent on the scheme Financed by national budget and the sector
Belgium		More than 10 years old	CO ₂ emissions below 160g/km	€1,500	under discussion (at time of writing)	
Finland	Private individuals			New car €500 Used car €200	October 2005 – December 2008	Fully financed by the sector

Table 3: *Scrappage schemes in selected Member States (cont'd)*

	Target group	Conditions – old car	Conditions – new car	Bonus		Time horizon	Miscellaneous
France		More than 10 years old		CO ₂ emissions below 160g/km	€1,000	2009	A maximum of €220 million may be spent on the scheme (national budget)
				Very low CO ₂ emissions	€2,000		
Germany	Private individuals	More than nine years old Registered for at least one year with the present owner	New or at most one year old Must meet 'Euro 4' European emissions standard	€2,500		14 January – 31 December 2009	A maximum of two million cars may be covered by the scheme The maximum budget for the scheme is €5 billion (from the national budget)
Greece				€1,500–€3,400			
Italy		Registered by 31 December 1999; emissions standard of Euro 0, 1, or 2	Euro 4 or 5 emissions standard and CO ₂ emissions below 140g/km (130 for diesel)	€1,500		New vehicles ordered from 7 February 2009 – 31 December 2009 and registered by 31 March 2010	
		Old lorry, LCV, motor caravan with emissions standard of Euro 0, 1, or 2	Lorry, LCV, motor caravan with emissions standard of Euro 4 or 5	€2,500			
Luxembourg	Private individuals or companies	More than 10 years old	CO ₂ emissions below 150 g/km	€1,500		1 January 2009 – 31 December 2009 (date of registration of the new car)	Financed by the climate protection fund
		Registered for at least two years with the present owner	CO ₂ emissions below 120 g/km	€2,500			
Portugal		10 years	CO ₂ emissions below 140g/km	€1,000			
		15 years		€1,250			
Romania		More than 10 years old Registered since 31 December 2006	No requirement to meet any environmental standards	€800		February/ March – December 2009	A maximum of 60,000 cars may be financed under the scheme
Slovakia	Private individuals or companies	First registered before 1 January 1999	Must not cost more than €25,000 (incl. VAT)	€1,500 if the car dealer provides a discount of €500; €1,000 otherwise		March – end 2009	max. €33 million (national budget)
Spain		At least 10 years old or 250,000 km At least 15 years old	New or used (maximum five years old) CO ₂ emissions below 140g/km	€1,800		1 December 2008 – 31 July 2010	
Netherlands (The Hague)		Produced before 1991		€1,000			
United Kingdom		At least 9 years old	New or at most one year old	GBP 2,000		Announced in Budget of 22 April 2009	

A proper evaluation of the measure has yet to be carried out but the following points may be made. First, despite the apparent success of the German scheme, many other countries that have adopted scrappage schemes have not seen such a positive development. Moreover, scrappage schemes are not exempt from criticism. Some people question whether this is the most cost effective of measures for reducing carbon emissions: indeed, in principle the waste of materials due to the early obsolescence of consumer durables has obvious environmental drawbacks. As regards the demand stimulus effects, it has been pointed out that it may only substitute current demand for other goods and may only provide a short-term stimulus to the industry and that demand will fall again in the longer term. These are probably not very pertinent criticisms. Whatever the long-term structural problems may be in the sector in Europe, the nature of the current problem is largely cyclical and good business cycle policy aims to shift the time profile of demand over the cycle.⁴ Neither is the issue of the substitution for other consumer goods totally convincing.

The issue of why the scheme appears to have been more successful in Germany than in other countries may be due to some particular features of the German scheme. For example, the German scheme is somewhat more generous than in other countries. It was strongly marketed as an environmental promotion measure. This is in contrast to, for example, the recently proposed measure in the UK.⁵ However, while it is important to highlight again that no proper evaluation of these schemes is yet available, it is reasonable to assume that the success or otherwise of these schemes may also depend on factors other than the details of the scheme itself. Consumer expectations play a vital role in the decision to buy expensive consumer durables. If consumer confidence is extremely low, then it would take a much larger subsidy to effect the car purchase decision than if confidence were stronger. Liquidity constraints may also play an important role. With their high rate of savings, German consumers are presumably much less dependent on increasingly scarce credit and thus have a greater propensity to avail of this opportunity, compared with many other European cash-strapped consumers.

Thus, while the rapid increase in German car registrations in the face of recession and in light of the negative development in car sales in the vast majority of other Member States would appear to be quite convincing evidence of success – at least from a short-term perspective – it is not entirely clear what this success is due to. Member States should examine the German scheme in some depth – together with the state of consumer confidence and liquidity – in any attempt to emulate its success. Furthermore, since it can be observed that scrappage schemes are comparatively more beneficial for manufacturers of smaller and cheaper cars (since for such cars the relative cost advantage inherent in the scrappage bonus is higher), respective schemes will have different effects on the national car sectors depending on their characteristics (production of small vs. luxury vehicles). From a more holistic perspective, the effects on other industries (such as motor mechanics, second-hand dealers) should be considered.

Short-time work support

General considerations

To assist companies and employees in coping with the recession – and the related drop in sales and income – quite a wide range of instruments has been launched (or adapted to the current situation) by Member State governments; in many cases, this has taken place on the initiative of, or with the involvement of, trade unions.

⁴ On the other hand, if this recession turns out to be unusually long then the early scheduling of car purchases may keep demand for cars low for some time to come.

⁵ The UK government acknowledged that the scheme would have only ‘a neutral or modestly positive environmental impact’ – Financial Times 23 April 2009.

These instruments can be summarised under the following headings:

■ Preventive measures.

- support of short-time work and/or temporary lay-offs;
- reduction/deferral of non-wage labour costs to be paid by companies for current employees;
- reduction of income tax for employees;
- training support while employed;
- public loans or bank guarantees; direct subsidies to companies;
- indirect support (e.g. infrastructure, investment, incentives for consumers).

■ Active labour market policies.

- job matching, counselling and career guidance;
- company support (mainly financial) for employing additional employees;
- (re-)training of workforce in unemployment;
- mobility grants;
- support of self-employment.

■ Passive labour market policies.

- unemployment benefits;
- social assistance;
- retirement payments.

The majority of these instruments are not bound to specific sectors of the economy (as are the scrappage schemes mentioned above). However, due to the large numbers of car companies affected by the present economic downturn, many of these instruments are more relevant to this sector than to others.

Probably the most prominent and highly relevant example of such public support instruments during the recession is the approval and financial support of short-time working schemes. Since across Europe Germany and France seem to be to the fore in establishing and adapting such schemes, and since they are the two leading automotive sector employers in Europe, a brief summary of the main characteristics of these instruments is outlined below.

Short-time support in France

The French model of partial unemployment (*chômage partiel*) is a legal instrument to protect employment and prevent dismissals in the case of exceptional circumstances by allowing enterprises with a drop in sales of at least 50% to temporarily reduce working times or suspend their business activities.⁶ Partial unemployment may be applied for the following reasons:⁷

- down-turn in economic cycles;
- difficulties in the provision of raw materials or energy;
- transformation, restructuring or modernisation of the enterprise;
- exceptional natural disasters and other crises.

The instrument should be used as a temporary tool and at collective level.

Two types of partial unemployment exist in France:

- *flexibilité conjoncturelle* – used to adapt the number of working hours in case of temporary difficulties;
- *flexibilité structurelle* – used to adapt the number of working hours in case of reduced business activities due to cyclical downturns (i.e. longer or repeated periods).

Between 1995 and 2005, the authorisations on average concerned less than 1% of the companies and 2% of the employees in the private sector (excluding agriculture) and declined considerably during this period. This was attributed to the introduction of legislation on the reduction of working time (i.e. substitution effect between short-time work compensation and working time reduction).⁸ In 2005, 1.8 million days of partial unemployment were authorised; in 1996, the figure was six times higher. The number of employees affected dropped from 1.7 million in 1996 to 300,000 in 2005 (a drop of 82%) while the number of enterprises decreased from 34,000 in 1996 to about 5,000 in 2005 (a drop of 85%). About 90% of the authorisations were based on economic reasons. Between 1995 and 2005, 75% of the affected enterprises had fewer than 20 employees.

In 2005, the costs to the state budget amounted to €16.6 million for partial unemployment. In 2008, the costs were as high as €50.5 million, 60% of which arose in December. For 2009, costs of €40 million are foreseen to support partial unemployment.

In December 2008 and January 2009, the instrument was reformed as a reaction to the economic crisis, providing employees with the possibility of being compensated for their loss of income while being on short-time work. Employers have to pay at least 60% of the gross pay (from January 2009 onwards) or 75% (from April 2009 onwards) of the gross pay; prior to the crisis, a payment of 50% was required. This applies in cases where a minimum hourly rate of €6.84 (€4.42 before the reform) is payable.

⁶ Calavrezo, O., Duhautois, R., Walkowiak, E. (2009), 'Chômage partiel et licenciements économiques', *Connaissance de l'emploi* 63, March 2009, cee (centre d'études de l'emploi) available at:
<http://info.assedic.fr/employeurs/index.php?idmenu=86&idarticle=18&chemin=83%7C86%7C>

⁷ <http://www.cfdt.fr/rewrite/article/19103/actualites/le-chomage-partiel-comment-ca-marche.htm?idRubrique=6864>

⁸ Calavrezo, O., Duhautois, R. and Walkowiak, E., *The short-time compensation program in France: An efficient measure against redundancies?*, Centre d'Études de l'Emploi, Document de travail 114, February 2009.

To partly compensate for the costs arising at enterprise level, employers are eligible for government support. From January 2009, enterprises with up to 250 employees have received a supplement of €3.84 per hour and larger enterprises €3.33 per hour.

Furthermore, the maximum time period for each employee to be put on partial unemployment in case of temporary lay-off has been increased from four to six consecutive weeks. In addition, the maximum total number of annual hours on short-time has been raised from 600 to 800 per employee. The maximum annual total is higher – 1,000 hours for the textile, clothing and leather industries and the automotive sector (including subcontractors and car dealers).

The reform also entitles part-time workers (working on average less than 18 hours per week) to partial unemployment payments from 2009 onwards.

Companies that wish to take advantage of the partial unemployment scheme have to consult the plant's works council and then apply for an authorisation with the Department of Employment – *Direction départementale du travail, de l'emploi et de la formation professionnelle* (DDTEFP). For each establishment, the annual number of days of partial unemployment, the number of affected employees and the average duration of partial unemployment per employee are authorised.

Analyses of the companies with 50 or more employees taking advantage of partial unemployment between 1996 and 2004 (more than 36,000 establishments and about 204,000 observations)⁹ show that partial unemployment does not reduce the number of dismissals in the case of severe (temporary) economic difficulties, particularly if the phases of short-time work last for long durations.¹⁰ Rather, using partial unemployment tends to be the last solution before making employees redundant, postponing dismissals (for up to six months) and calming the social tensions in the run-up to the dismissals.

Short-time support in Germany

In Germany, reduced incomes in the case of a temporary loss of work (agreed upon by the works council and the local labour authorities),¹¹ are partly compensated for by the '*Kurzarbeitergeld*' (Kug) of the Federal Employment Agency (*Bundesagentur für Arbeit*), which is more generous than the French model.¹²

For 2009 and 2010, the condition that at least one third of the staff has to be affected by short-time work no longer applies. In order to qualify for public support, the decrease in earnings needs to amount to more than 10% and the reduction in working hours needs to be attributed to economic conditions (i.e. a sharp decline in demand), unforeseeable accidents, or *force majeure* structural changes.

⁹ Establishments with at least 50 employees cover 70% of the total number of concerned employees and about 64% of the total number of authorised days of short-time work in the period 1996–2004.

¹⁰ Calavrezo, O., Duhautois, R., Walkowiak, E., op. cit.

¹¹ Glassner, V., Galgóczi, B., *Plant-level responses to the crisis: can jobs be saved by working less?*, ETUI Policy Brief, Issue 1/2009, and <http://www.fuer-ein-lebenswertes-land.bmas.de/sites/generator/29874/Startseite.html>

¹² Eichhorst, W., Marx, P., *Kurzarbeit: Sinnvoller Konjunkturpuffer oder verlängertes Arbeitslosengeld?* IZA Standpunkte No. 5. Institute for the Study of Labour, 2009.

The benefit amounts to the level of unemployment benefit, i.e. 60% of the difference between the employee's normal pay and the reduced wage (67% for employees with children). By using funds from unemployment insurance, the state pays for 50% of the social security contributions that are attributed to short-time work in 2009 and 2010. Until the end of 2009, the eligibility period is extended to 18 months (from six months previously and 12 months for the second half of 2008). In the event of a protracted crisis, the period of entitlement can be further extended to 24 months by decree of the Minister of Labour.¹³

Furthermore, the application procedures have been simplified: there is no longer any obligation to use up any credit hours accumulated in individual working-time accounts. Temporary agency workers now also have access to short-time working support on the same conditions as other workers until the end of 2010, if they cannot be posted within the next three to six months.

To encourage improvement of skills, a programme covering measures for qualifications and training during short-time working is being set up, cofinanced by the European Social Fund.¹⁴

With the increased use of this instrument, measures for the vocational training of employees on short-time work are gaining in importance. If the employees participate in further education during their time off, up to 100% of social insurance costs may be covered by the state. Furthermore, between 25% and 100% of training costs (for 2009–2010) are covered, and in some cases support for travel and childcare expenses is provided.

Before the current recession, short-time work played a central role in Germany during the restructuring of the economy in East Germany in the 1990s. However, short-time work could not prevent job losses in the long run. The majority of short-time workers became unemployed or moved into early retirement or active labour market policy measures. A second important phase of short-time work began in 1993 due to difficult economic framework conditions in the manufacturing industry. After 1997, a steady decline could be observed until another peak occurred in 2002, followed by another ongoing decrease until 2007.

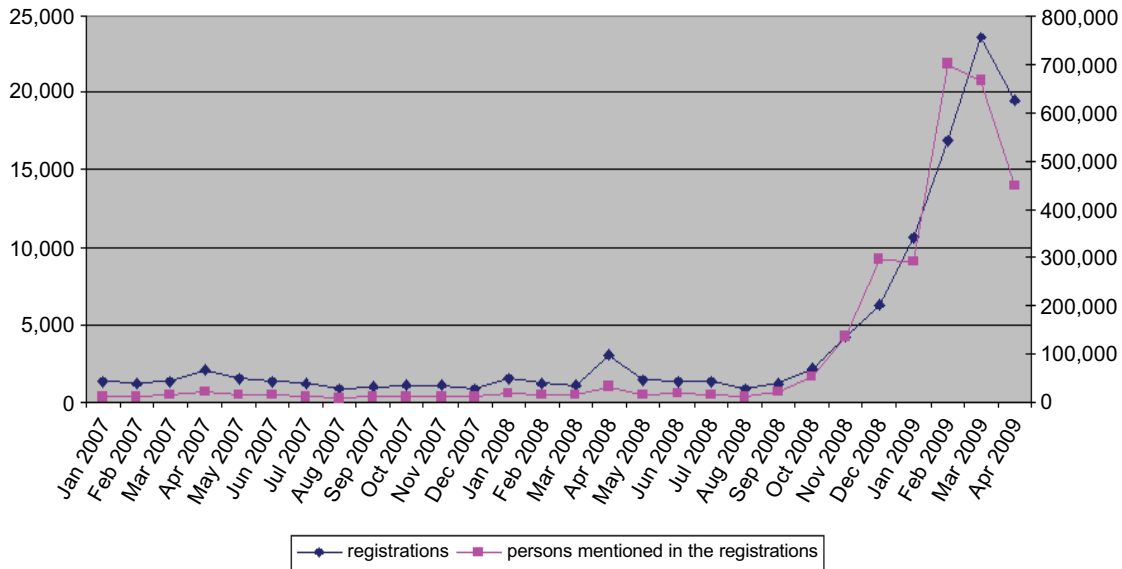
In April 2009, about 19,400 companies applied for short-time work – around 4,000 fewer companies than in March, when the applications reached their peak to date. Since October 2008, a considerable increase in the number of companies registering for short-time work can be observed, almost doubling on a monthly basis.

The total number of employees mentioned in the registrations was 446,400 in April 2009. This constitutes a decrease of about 219,000 compared with March 2009, but an increase of 416,000 compared with April 2008. The increase in the number of short-time workers that can be observed since the third quarter of 2008 is even more straightforward than the increase in the number of companies registering for short-time work, reaching a level around 40 to 50 times higher in February–March 2009 than the average of January 2007–mid 2008.

¹³ *ibid* and http://www.bmas.de/coremedia/generator/33050/2009_04_29_zusaetzlich_stabilisierende_massnahmen_arbeitsmarkt.html

¹⁴ European Commission, *EU employment situation and social outlook*, March 2009.

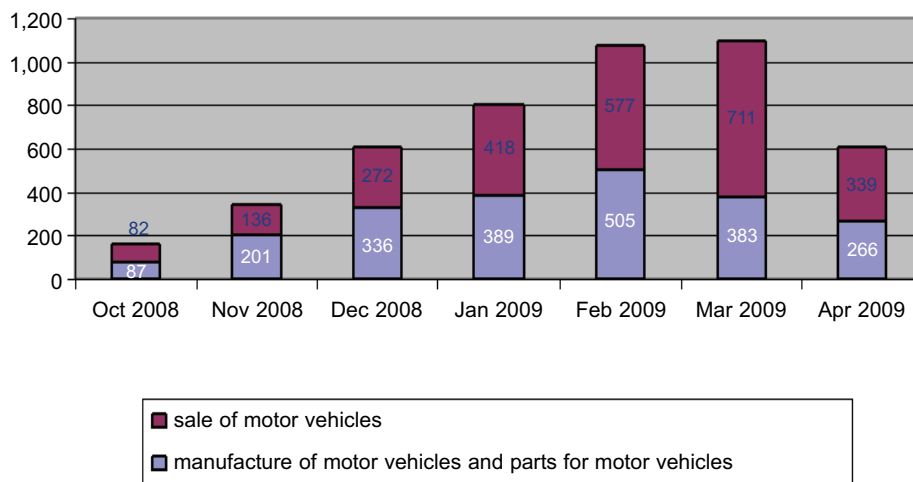
Figure 5: Number of companies registering for short-time work and number of workers mentioned in these registrations in Germany, January 2007 – April 2009



Source: Federal Employment Agency

Over the period October 2008 to April 2009, car companies (i.e. manufacturers and dealers) accounted for between 5% to 10% of all short-time work registrations. In terms of absolute numbers, a continuous increase could be observed between October 2008 and March 2009 (from about 170 to about 1,000) while the share of the car sector in the total registration reached its peak in December 2008 and steadily declined afterwards. In the last months of 2008, short-time work was of greater importance for car manufacturers than for car dealers. In the first quarter of 2009, the number of companies active in the automotive industry registering for short-time work showed a significant increase. As for short-time work registration in total, a decrease was observed in the car sector in April 2009. This is particularly the case with car dealers.

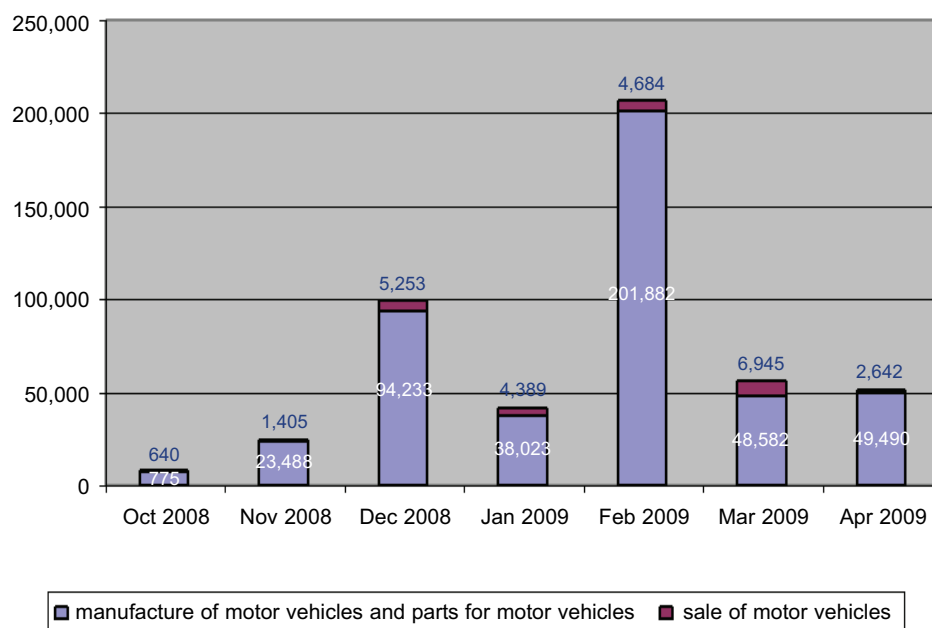
Figure 6: Number of car companies registering for short-time work in Germany, October 2008–April 2009



Source: Federal Employment Agency

The number of car sector workers on short-time work in Germany reached two key peaks during the last six months – in December 2008 (with about 99,500 affected workers) and in February 2009 (about 206,600 workers). At these two points in time, the car sector accounted for about one third of all short-time workers in Germany. The vast majority of affected workers are employed in the manufacturing sector, pointing to the higher average company size of car manufacturers compared with car dealers.

Figure 7: Number of workers mentioned in registrations for short-time work in the car sector in Germany, October 2008–April 2009



Source: Federal Employment Agency

The Federal Employment Agency announced that it would increase the initially planned budget for short-time work support from €300 million to €2.1 billion for 2009. In addition, the annual costs for the qualifications measures amount to about €400 million.¹⁵

Due to the highly regulated labour market, company internal flexibility is an important resource for companies to cope with cyclical variations. The *Kurzarbeitergeld* can be interpreted as a support instrument for such strategies by the labour market policy. In general, trade unions agree to short-time working schemes in order to create employment stability for core staff and to avoid dismissals.¹⁶

Research by the German Institute for Employment Research (*Institut für Arbeitsmarkt- und Berufsforschung der Bundesanstalt für Arbeit – IAB*) finds that about two thirds of the companies which announced short-time work in 2002–2003 maintained their level of employment or even hired additional staff. Furthermore, the evaluation of the further labour market involvement of staff having undergone qualifications measures during short-time work shows that six months after the end of the measure, more than 60% of the participants have a job with full social security coverage

¹⁵ Eichhorst, W., Marx, P., op. cit.

¹⁶ op. cit.

and after two years more than 40% have a job that is not publicly supported. Women, older people and people from outside the EU face a greater likelihood of unemployment after such a qualifications measure than other groups.¹⁷

It is, however, also pointed out that the application of short-time work (particularly if used during a longer period of time) negatively affects structural change by artificially maintaining employment in declining industries instead of redirecting the workforce into more future-oriented jobs.¹⁸

Recession initiatives at company level in the European car industry

As the European car sector is one of the industries most severely hit by the recession, many companies – manufacturers and dealers of cars and trucks and suppliers of parts – have established plant level measures, both with and without state support, to address the substantial decline in demand without having to dismiss workers.¹⁹ The main motivation behind respective strategies is the retention of a skilled and loyal workforce until the point of time when the recession ends.

The car company initiatives aimed at safeguarding jobs during the recession often involve bargaining with employee representatives as well as collective agreements at plant level. In Spain, the union in Nissan, for example, protested against the planned lay-offs, which resulted in the implementation of a temporary work reduction programme instead. Mercedes Benz in Germany made the terms and conditions of its planned short-time work subject to agreement of the labour councils at the plants concerned.

Some European car companies applied for public support or received support from state instruments (e.g. favourable loans or guarantees, direct subsidies or wage compensation in the case of short-time work or temporary lay-offs).²⁰ The most prominent examples are the €3 billion low-interest loans from the French government to Renault and Peugeot to prevent them from closing any French factories for the duration of the loan and from implementing mass lay-offs in France for one year. Spain launched the ‘Plan de Competitividad del Sector Automoción’ with a budget of €800 million to offer financial support for optimising production processes or reorientating production in the car industry. Out of this fund, Seat received €100.7 million to build a new Audi model in Spain. Jaguar Land Rover received an EIB loan for R&D, being part of the UK’s GBP 2.3 billion ‘Automotive Assistance Package’. This package comprises guarantees to unlock loans for the automobile industry of up to GBP 1.3 billion from the EIB, as well as a further GBP 1 billion in UK government loans to be invested in greener vehicles. Furthermore, the Department of Innovation, Universities and Skills has increased its funding aimed at helping train car manufacturing employees, raising it from GBP 65 million to GBP 100 million. The German government is considering a €3.3 billion rescue of General Motor’s Opel subsidiary, and the Slovakian government is looking for possibilities to provide systematic assistance to car makers in the form of partial financing of training programmes and specialised training for employees. The effectiveness of state support can be shown by the example of Fiat SpA, which cancelled a week of temporary lay-offs at an Italian plant because of the state aid supplied to the sector.

¹⁷ Deeke, A., Ohlert, C., Qualifizierungsmaßnahmen während Kurzarbeit nach endgültigem Arbeitsausfall. Analysen zur Förderung im Rahmen des ESF-BA-Programms 2000 bis 2006 und zum Verbleib nach der Teilnahme, IAB-Forschungsbericht 3/2009

¹⁸ Eichhorst, W., Marx, P., op. cit.

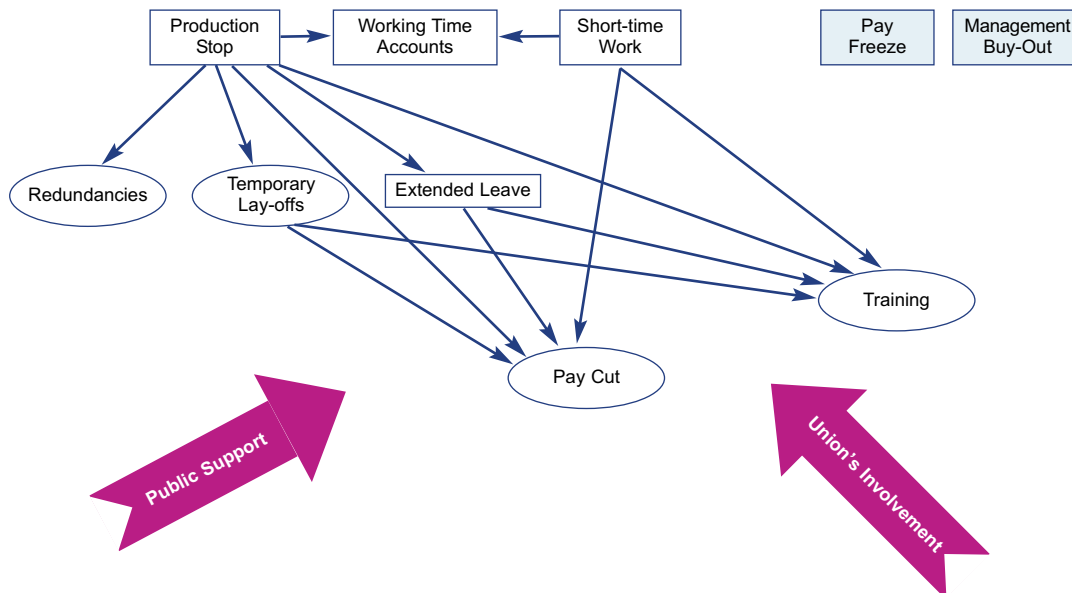
¹⁹ In case of redundancies, in many cases temporary agency workers are the first to be dismissed (e.g. Continental worldwide, General Motors and MAN in Austria, BMW and Rolls Royce in the United Kingdom, BMW and Volkswagen in Germany, Skoda in the Czech Republic, Audi, Opel and Michelin in Hungary). Several European car manufacturers and suppliers (e.g. Honda in the United Kingdom, Nissan and Pirelli in Spain, Volkswagen in Slovakia) are offering voluntary severance packages – greater than statutory payments – to employees deciding to leave the company.

²⁰ Alongside governmental instruments to support the workforce, e.g. in case of wage loss during short-time work or temporary lay-off.

Figure 8 provides an overview of the measures taken by individual enterprises (with the influence of the unions and state support, if applicable). When experiencing a drop in demand, many companies try to reduce labour costs by adjusting production levels to the demand level. This can be done by a (temporary) production stop or by downsizing production activities (e.g. to two shifts instead of three), which is often realised by using short-time working schemes, working time accounts or extended leave. While a complete production stop is often related to permanent or temporary lay-offs, the ‘gained’ time of the staff while being on extended leave or short-time work is used in many cases for training purposes. Nevertheless, in the majority of cases, the initiatives are related to an income loss for the affected workforce.

So far, few examples of pay freeze and management buy-out as a means of safeguarding the company’s survival during the recession have been found. These seem to be comparatively rare and isolated from the other instruments which will be described in more detail below.

Figure 8: Overview of company-level recession measures



Source: Eurofound

Many car manufacturers react to a decline in demand by halting production for a limited time period. The number of affected workers has varied from about 1,000 (if, for example, only one plant is concerned) up to 150,000 when Mercedes Benz closed all German production sites for an extended Christmas holiday.

The duration of the production stop ranges from one week (e.g. Volkswagen, Porsche and Ford in Germany, Fiat in Spain, General Motors in Sweden, Toyota in the UK) to about four months (e.g. Honda in several plants in the UK at the start of 2009). So far, the general duration of production stoppage is four weeks; this took the form of an extended Christmas holiday in December 2008–January 2009 (e.g. Continental worldwide, Rolls Royce in the UK, Mercedes Benz in Germany, Audi and Michelin in Hungary). However, several car companies have already repeatedly shut down production premises or are planning to do so throughout 2009 (e.g. General Motors in Austria, Mercedes Benz in Germany, Opel in Poland and the UK, Volvo Trucks in Sweden, Dacia in Romania).

Short-time work at General Motors

In January 2009, 1,540 of the 1,850 employees of the General Motors production site in Vienna, Austria, were registered for three months of short-time work with the Public Employment Service.²¹ The regulation that was agreed upon by the works council states that within a time period of up to four weeks, a maximum of 10 working days must not be worked.²² The actual number of working days will be decided upon by the management at short notice, depending on the order situation.

In March 2009, short-time work was abolished again for about 1,000 of the affected employees returning to full-time work.²³ The main reason for this is that the German scrappage scheme, which resulted in an increased demand for cars, also affected the Austrian plant. Nevertheless, since the beginning of 2009, sales fell by about 35% compared with the same period in 2008. Consequently, the management does not exclude the possibility of returning to short-time work at a later point.²⁴

In the UK, Vauxhall's plant in Ellesmere Port started to operate a four-day week on 16 February 2009. Workers' hours were reduced from 38 to 30 a week and the reduced schedule will stay in force until the launch of a new Astra car.²⁵ Earlier, at the end of 2008, the plant had already been forced to shut down for a few weeks.²⁶

In December 2008, another GM subsidiary, Opel, reduced the number of shifts from three to two at its site in Gliwice, Poland. A series of temporary production stoppages were also introduced. During idle times, one part of the workforce was assigned to perform previously outsourced tasks and another part was given training (see the section on training p.19).²⁷

Another measure which is used to avoid permanent redundancies during a production stop is a temporary lay-off of the staff concerned. In Italy, for example, Fiat SpA closed most plants for several weeks and temporarily dismissed part of the workforce, with the financial support of the state (see box on p.19).

²¹ <http://diepresse.com/home/wirtschaft/economist/442108/index.do>

²² <http://wien.orf.at/stories/336039/>

²³ http://www.bmwfj.gv.at/BMWA/Presse/Archiv2009/20090312_02.htm

²⁴ <http://diepresse.com/home/wirtschaft/economist/460452/index.do?from=simarchiv>

²⁵ <http://www.liverpoolecho.co.uk/liverpool-news/local-news/2009/02/04/ellesmere-port-vauxhall-plant-to-work-four-day-week-64375-22855363/>

²⁶ <http://www.ldpbusiness.co.uk/liverpool-news/liverpool-business-news/2008/12/08/car-sales-crisis-shuts-vauxhall-for-a-month-96026-22427195/>

²⁷ http://www.expatica.com/ch/employment/employment_information/European-HR-news-roundup_-_December-2008_13357.html

Temporary lay-offs at Fiat in Italy

The Italian wage guarantee fund '*Cassa integrazione guadagni*' (CIG) supports workers experiencing an income loss due to short-time work by providing an 'ordinary' scheme (for temporary lay-offs and short-time work) as well as an 'extraordinary' scheme (in the case of restructuring, for example). In the framework of the economic crisis, the government approved a new legislative decree in November 2008 which would come into force in February 2009. The law extends the eligibility to the wage guarantee fund to workers in economic activities and company size classes not covered by the general regulation. In 2008, a 96.8% increase in the number of unworked hours covered by the payments of the ordinary wage fund compared to 2007 was registered. Recourse to the fund increased sharply towards the end of the year: in December 2008, 526% more hours of benefit were paid than in the same month of 2007.²⁸

In the face of a reduced demand for cars, the Italian Fiat SpA used state-supported temporary lay-offs to cut costs and reduce inventories of unsold vehicles. Between mid-December 2008 and mid-January 2009, Fiat took advantage of the scheme for its 58,000 production line workers while closing plants.²⁹ Since then, repeated periods of temporary lay-offs, partly suspended at short notice due to increased demand, have been put in place.

For example, between 30 March and 12 April 2009, temporary lay-offs took place in the Mirafiori plant in Turin, employing 6,000 workers. Shortly after the planned temporary lay-offs of 5,000 workers for the period between 27 April and 3 May 2009 was cancelled,³⁰ the plan to close the Alfa Mito and Fiat Multipla assembly lines at the Mirafiori plant for one and two weeks in May/June 2009, respectively, were announced.³¹

In some cases, several hundred employees are concerned – for instance, temporary lay-offs affected 455 staff members in the framework of a planned temporary downsizing plan of a Spanish Ford plant, 536 workers of the electronics manufacturer Tyco for a six-month period in Portugal, and 700 workers for 60 days at a Spanish plant of the German car parts maker Robert Bosch at the end of 2009. However, most temporary lay-offs affect several thousand employees: in Spain between 3,000 and 4,000 workers at Nissan, 4,500 workers in Seat, 5,200 workers at Ford, and 10,300 at Renault.

In some cases, employees are encouraged to use the time off during production halts (or the increased spare time in case of short-time work, see below) for training or further education purposes. When shutting down its production lines of two series for six and seven weeks in early 2009, Bentley Motors offered the 3,500 workers affected (re-)training opportunities in order to maintain the long-term future of the workforce. This approach is also followed by Opel in Poland and Volvo in Sweden. Similarly, Toyota UK gives its workforce the opportunity to do training in different areas: for instance, some production workers get training in driving fork-lift trucks, while others receive on-the-job training in reception.

²⁸ Source: National Institute for Social Security (Inps)

²⁹ <http://in.reuters.com/article/rbssConsumerGoodsAndRetailNews/idINL75603720090107>

³⁰ <http://www.finanznachrichten.de/nachrichten-2009-04/13700726-update-1-fiat-to-halt-iveco-engine-production-source-020.htm>

³¹ <http://www.just-auto.com> (27 April 2009)

Training for workers during production stoppages

In October 2008, GM decided to cut back production at its Opel plant in Gliwice in southern Poland due to the drop in customer demand in western Europe, where most of the cars made in Gliwice were exported. The company was forced to introduce a series of week-long stoppages. During suspension periods, the affected 3,000 employees received their basic pay and were assigned to maintenance work or provided with training. Most were trained on how to assemble a new Astra IV model, the wide-scale production of which is expected to be launched in Gliwice in 2009 or 2010.³²

Another example of a car company that engages in training its workforce during the crisis is Toyota. In November 2008, Toyota UK's management signed up to the 'Skills Pledge', a government-funded scheme that can offer training for employees at the Burnaston and Deeside plants in the UK. During 2009, about 1,500 production line workers are expected to receive training at Burton College in order to obtain an NVQ level 2 in Business Improvement Techniques and Performing Manufacturing Operations.³³ The British government Skills Secretary praised Toyota for its strong commitment to the skills development of its workforce.

An alternative to temporarily dismissing workers during plant closures is extended leave, whereby employees are obliged to go on holidays. In addition to the above mentioned extended Christmas holidays, some European car manufacturers also made their staff use their vacation entitlements in later phases of production stoppages (e.g. Volvo Trucks in Sweden, Michelin in Spain). Almost 1,000 white-collar workers of Fiat SpA in Italy are affected (taking leave from the beginning of May to the beginning of August 2009), 1,200 employees of Gertrag Ford in the United Kingdom (taking one month off over Christmas) and all 150,000 employees of Daimler in Germany (also taking four weeks' Christmas holidays).

However, both temporary lay-offs and an obligation to go on holidays are not necessarily always related to a temporary plant closure. Seat, for example, developed a plan for temporarily dismissing several thousand workers in a Spanish plant on a rotating basis.

Temporary lay-offs in a Spanish Seat plant

Due to a very poor year in 2008, culminating in a 50% year-on-year sales drop in December and no signs of improvement, Seat decided to reduce production through temporary lay-offs at its Martorell site in Spain.

About 5,300 workers were due to be laid off for between seven and 29 days in the period from February to June 2009.³⁴ Workers are placed in temporary unemployment on a rotating basis at the different production lines so that the plant can continue to operate without stoppages. This decision followed an earlier lay-off scheme announced in November 2008, which resulted in temporary lay-offs of 4,500 workers.³⁵

In March 2009, Seat decided to also introduce a two-year salary freeze. Most of the 11,000 workers at the Martorell site agreed on the freeze in a bid to win an order for a new Audi model (Q3) and to keep their jobs.³⁶

³² http://www.samar.pl/_/_la/en/_ac/sec,4/new/17270/_Poland-GMs-Gliwice-plant-suspends-production.html

³³ http://www.semta.co.uk/about_us/media_centre/news/toyota_skill_pledge_commitment.aspx
<http://www.burtonmail.co.uk/burtonmail-business/DisplayArticle.asp?ID=379277>

³⁴ European Employment Review Issue: 421 Date: 30/01/2009

³⁵ http://www.typicallyspanish.com/news/publish/article_19280.shtml

³⁶ <http://www.4wheelsnews.com/seats-workers-from-martorell-factory-accepting-pay-freeze-to-win-audi-q3/>

For the workforce affected such measures often result in a wage cut. In Spain, the Japanese car maker Nissan presented a downsizing plan in March 2009 outlining the temporary lay-off of almost 3,800 workers from 1 April to 31 July 2009, resulting in a pay cut of 90% during that time. In the UK, Toyota reached an agreement with the workers of the Derbyshire factory for them to take two days off a month, equivalent to a 10% pay cut per year. A similar approach has been taken at Mazda in Ireland, where the measure is planned to last until March 2010. Honda and General Motors offered sabbaticals of between six and nine months to their employees, also related to a wage reduction.

In order to reduce labour costs, some car manufacturers have cut, or are planning to cut, negotiated wages, mainly those of senior staff – without any production stoppage or reduced working times.

Wage cuts at BMW Germany

Due to the current economic situation, German car manufacturer BMW revised its sales forecasts.³⁷ Without giving concrete figures, it was indicated that 2008's worldwide sales level of 1.4 million vehicles (which was already a decrease of 4.3% compared with the previous year) would not be reached. In January and February 2009, sales decreased by about 25% compared with the previous year; for March – in spite of the German car scrapping scheme, which benefits smaller, cheaper cars over luxury vehicles such as BMW – a sales drop of about 17% was observed. The management expects an upward trend only in 2010.

In the framework of the crisis, the company's primary objective is to preserve the financial stability and the liquidity of the holding. By the end of 2008, the liquid assets and bonds amounted to €8.1 million.

Alongside savings in the costs of raw materials – achieved by purchasing cooperation initiatives with other car manufacturers – savings in labour costs are to be achieved without making workers redundant. Short-time work at the plants in Regensburg und Dingolfing will be continued in April and May 2009, affecting about 23,000 employees. The workers will receive 93% of their net salary. Whether short-time work in the production plants in Munich will be extended is not yet decided.

Furthermore, bonus payments to employees and management will be cut. Employees' annual wages will be reduced by about 10% while at the same time area managers' wages will be reduced by about one third and the salaries of the executive committee by 40%, reflecting the different levels of profit-related wage components. This development mirrors the basic principle of the company – making employees and management participate in the business success, both in good and bad times.

At the Nissan Sunderland factory, senior staff will have any payments they are entitled to above their normal salary cut by 15%. In Volvo Sweden, top management salaries will be reduced by 5% from April to December 2009.

Short-time work – the reduction of standard working hours at company level – leads to a lower income level for the affected workforce. Nevertheless, it is a comparatively widely used instrument within the European car sector to cope with the recession and accepted by the workforce or their representatives as a response to the threat of job loss. Several car manufacturers introduced short-time work in the beginning of 2009, mainly with the intention of reducing working hours for several weeks, up to a period of six months. However, there also exist examples of short-time regulations

³⁷ Source: Press conference of BMW in March 2009

introduced in April 2009 and lasting until April 2010. In the majority of cases, the working week is reduced to four days. The number of workers affected ranges from about 400 (in a German plant of the Italian tyre maker Pirelli, being about 15% of the plant's workforce) to as many as 100,000, in the case of the planned 28 hours short-time work for the German core workforce of Volkswagen, should the market further deteriorate.

Taking advantage of working time accounts, often in combination with a production halt or short-time work, is another alternative to dismissing employees in times of reduced production capacity. In these cases, workers are paid their normal salaries but have to make up the time when sales pick up again. In Germany, Daimler extended the number of hours used to reduce working time accounts to 200 in order to bring down the weekly working hours. In a similar way, BMW Munich increased the deficit hours in the working time accounts to 300. In several temporarily closed Honda plants in the UK, 3,600 workers receive basic pay for not working for four months, dropping to reduced pay after two months. On average, staff members maintain 88% of their pay over the four months and have to make up the hours when the plant reopens.

Working time accounts at Honda in the UK

In 2008, the UK sales of Honda decreased by about 20% to 83,000 vehicles. In the face of this down-turn and with no signs of improvement in the automotive industry, Honda decided to reduce its production output. In November 2008, it announced a temporary shutdown of its plant in Swindon. The closure was planned for two months – February and March 2009. The factory's 4,200 line workers were temporarily laid off although it was decided that they would still receive their full basic pay.

In mid-January 2009, Honda decided to prolong the temporary shut-down of the Swindon site to the end of May as the European car market was not showing any signs of recovery.³⁸ The laid-off employees' pay for the rest of the production shutdown was reduced to 60% of the basic amount. The up to 250 hours which laid-off workers were paid for during the closure were 'banked', meaning that employees will have to work them when the site is back in full operation, before any overtime will be paid.³⁹ The staff was promised the opportunity to return to work in June 2009, when the new Honda Jazz will go into production.

As well as these common strategies to cope with the recession, some automotive companies freeze the pay level of their workforce in order not to increase labour costs. In the UK, Jaguar Land Rover's management and its workers agreed on a one-year pay freeze to avoid compulsory job losses; in Spain, the majority of workers (65%) at Seat accepted a two-year wage freeze in order to safeguard 1,500 jobs (20% of the workforce). Nissan announced its intention to freeze the pay of its European-based employees in 2009. Volvo Sweden postponed the next wage round until January 2010, and Daimler is postponing the wage increase planned for May 2009, affecting 141,000 workers in Germany.

To safeguard the future of the UK van maker LDV, discussions about a management buy-out were started in early 2009. The proposals are backed by the factory staff, in the hope that the company could be rescued by this measure.

³⁸ http://www.google.com/hostednews/afp/article/ALeqM5jDcqp05hw_eD3IR3kYS-XBYSU0Pg

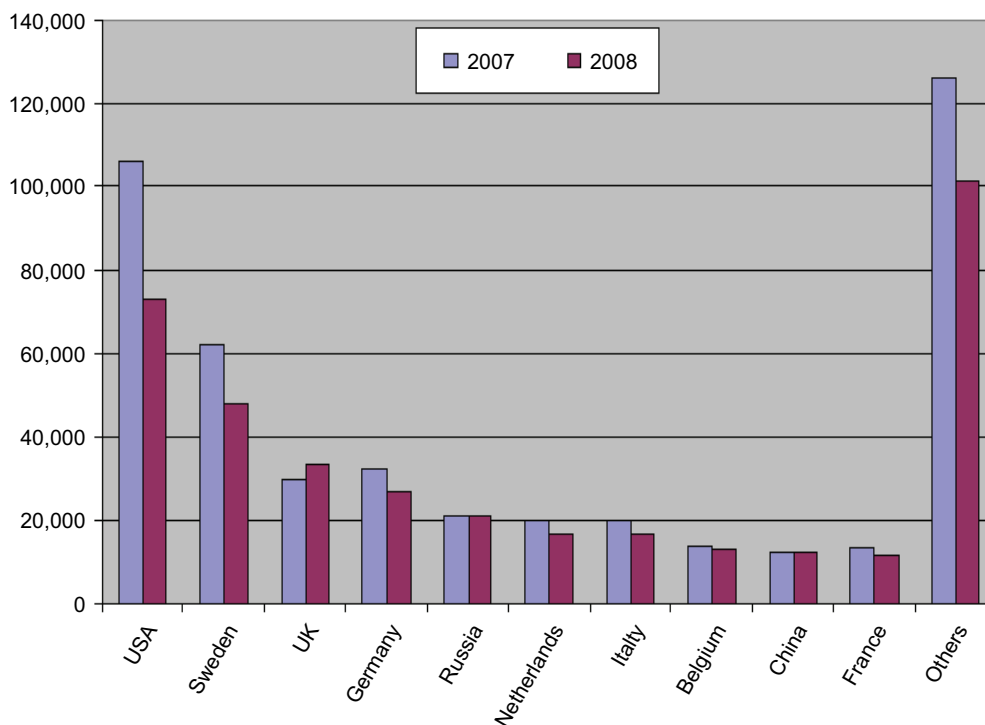
³⁹ <http://www.autocar.co.uk/News/NewsArticle/AllCars/237464/>

With the exception of the last two types of measures described above, it turns out that in practice the majority of firms do not focus on a single initiative, but apply a combination of several measures, either in parallel or after each other. Volvo is one of the companies which initiated such a ‘comprehensive approach’ to tackling the crisis.

The case of Volvo Cars

Relative to the size of its economy, few countries have been so hard hit by the crisis in the automotive sector as Sweden. Among Swedish companies, most collective dismissals have been at Ford owned Volvo Cars. Figure 9 indicates the scale of Volvo’s acute problems.

Figure 9: Sales of Volvo Cars by country of sale, 2007 and 2008



Source: Press release Volvo Cars 15 January 2009

In 2007, almost a quarter of all Volvo cars were sold in the United States. While overall sales fell by 18% between 2007 and 2008, the large US market fell by 31%. The drop in sales has continued in 2009. There have been several ways in which Volvo has dealt with these problems: voluntary redundancies, collective redundancies, short-time working, abolition of the third shift and wage freezes. These cannot be viewed as a strategic or planned mix of measures but rather as responses to a series of negative and not expected events.

Even before the acute crisis hit the firm the company was experiencing difficulties, not least due to adverse developments in the dollar exchange rate, and had initiated a cost-cutting exercise.⁴⁰ This included a voluntary redundancy scheme. While in terms of cost cutting this was at least partially successful, the company did experience the usual problem

⁴⁰ Note that while there have been other problematic issues related to the company being owned by Ford in the United States, the dependency on the US market is long standing, i.e. even when it was ‘Swedish’ owned by AB VOLVO.

associated with such schemes, namely that many of those who opted for the scheme were precisely those workers that the company wanted to keep. However, by June 2008 the drastic drop in sales led to the company notifying 6,000 employees of the termination of their contract with the firm. These were mainly employees at the main plant in Gothenburg, Sweden (and contract consultants) and in Ghent, Belgium. Such drastic measures had never been proposed in the company's history. At the same time as the obligatory negotiations with the trade unions on the proposed dismissals, the company's personnel department began a very extensive internal matching process which led to roughly 1,000 employees having new job descriptions. Also at this time, the bipartite transition agency TRR led training sessions with 750 managers on managing change both within in the company and to prepare them in dealing with the difficult situation of informing staff that they would no longer be required in the company. These training or coaching sessions could range between two hours to a day in duration.

The results of the social partner negotiations were made public on 8 December 2008. In Sweden, 2,721 employees left the company, of whom 2,367 were blue-collar and 354 white-collar workers. An additional 680 employees abroad also left the company. The limited impact on white-collar workers was largely due to the above-mentioned reorganisation which led to the termination of 1,215 contracts with external consultants (Table 4).⁴¹

Table 4: *Notified and enacted redundancies at Volvo Cars 2008*

		Total notified	Actual job loss
Sweden	Blue collar	2,600	2,034
	White collar	1,300	297
	Pension and education programmes		390
Subtotal: Employees in Sweden		3,900	2,721
International	Blue collar	300	200
	White collar	600	480
Subtotal: Volvo employees		4,800	3,401
Consultants		1,200	1,215
Total		6,000	4,616

Swedish law stipulates a 'last in-first out' (LIFO) principle for collective redundancies. However, exceptions can be made subject to agreement with the trade unions. The difficult issue was that many of the senior and older blue-collar workers who were relatively well protected by the law no longer worked on the production line. Production line work is very physically demanding work and many of these older workers would not have been able to perform this work. The application of strict seniority rules would have meant staffing shortages on the production line. As a result, between 300 and 400 of the blue-collar workers were exempted from the LIFO principle.

Of the over 57-year old blue-collar workers, 40 received an early pension, which guarantees SEK 16,000 per month. 160 of the staff are enrolled in training programmes and will retain their employment contract with the company for a further year. If demand picks up they will continue their employment in Volvo.

⁴¹ In general terms, one could say that there were two types of external consultants: those with specialised expertise not available in-house and those performing more routine tasks. It was largely the latter group that had their contacts terminated. The reason for having the non-specialised consultants is not fully clear. The union's view was that it is to provide a buffer when the business cycle turned down. The firm argued that it was more cost effective to out-source such staff.

As part of the notice process, each affected employee was given an information package including invitations to meetings with bipartite transition agencies TRR (for white-collar employees) and Startkraft (for blue-collar employees) and the Swedish Public Employment Service. The majority of the redundant employees left the company by 31 December 2008, however with full salary during the notice period. During the autumn of 2008, approximately 1,000 people had been matched into new jobs where positions had become available in connection with the reorganisation and termination of contracts with consultants.

Despite this very extensive round of collective dismissals, this was not the end of the story. In March 2009, the company signed a collective agreement with the local unions which in the view of the company 'most probably means that the company can avoid further employee separations' (Press release Volvo Cars, 12 March 2009). It was estimated that the savings would amount to close to SEK 500 million (approximately €50 million) in 2009. In conjunction with the savings, a further reduction of production volumes was planned in both Ghent and Gothenburg. The agreement, valid from 1 April to 31 December 31 2009, includes the following measures.

- The company's salary revision is postponed until January 2010 for all employees (this corresponds to approximately half of the total saving).
- The so-called 'Work time compensation' (*arbetstidskompensation* – ATK) was reduced by approximately 1.5 hours per week for all employees between 1 April to 31 December 2009.
- The company's 40 highest-ranked managers, including the executive management team, are to reduce their salaries by 5% from 1 April to 31 December 2009.
- No bonus will be paid to employees (including managers) in 2009 and 2010.
- To handle the decline in order intake, the agreement also contains up to 45 lay-off days during 2009 for employees in production. A salary reduction of 15% will be made for each of the lay-off days. This means a reduction of the monthly salary of up to 5%.

CEO Stephen Odell called it 'a unique agreement' for 'a unique situation'. He underlined the 'good and open dialogue with the unions'. He concluded by saying everyone at Volvo believed it was 'a good model to secure business and avoid further employee separations at the present time'.

Irene Mandl, Donald Storrie and Magdalena Bober.