SPECIAL REPORT

THE GLOBAL CRISIS AND RESTRUCTURING IN AUTOMOTIVE AND METALWORKING INDUSTRIES

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Impacts from the implosion and freezing up of the deregulated and highly leveraged global financial system continue to sweep over the productive sectors of the world's economy. Job loss and displacement confront millions of metalworkers around the world. The automotive industry was among the first branches to be hit by the financial crisis and repercussions have consequently rolled across companies, down supply chains and through communities in every region, taking heavy tolls on workers and their families.

In effect, the current crisis is the first synchronised, worldwide industry downturn since the automotive sector's rapid globalised expansion began several decades ago. For metalworkers and their unions, the unfolding crisis threatens to greatly intensify and accelerate previously existing restructuring pressures.

Workers are bearing the brunt of a crisis that they did not create, and for which urgent and effective responses are essential. These must come through concerted and coordinated economic, social and industrial government policies that bring about a new deal that protects workers' jobs, family income, and community well being, promotes sustainable development and moves economies to full employment. Where any form of industrial or enterprise restructuring is unavoidable negotiations between unions and companies should ensure that actions are mutually agreed upon and outcomes socially acceptable.

PREVIOUSLY EXISTING RESTRUCTURING PRESSURES

Metalworkers across the automotive industry are experiencing restructuring impacts as great as any time in history, glaringly magnified by the global economic crisis. The process of automotive transnational companies' (TNCs) globalisation has led the world's productive capacity to outpace growth in demand. That demand has been constrained by insufficient purchasing power and unequal development, and is now dramatically undercut by consequences of the financial meltdown.

In the two decades preceding the crisis, the industry's map and its workforce encountered unprecedented change as emergent countries became fully incorporated into the global market system. Throughout that period, employers continually pushed cost cutting measures. Not only through increased productivity of workers and more efficient methods to design and build vehicles but also through outsourcing, subcontracting and the substituting of precarious for permanent work.

While automotive TNCs prioritize adoption of standardized production and quality control systems meeting "global best practices", the upward harmonization of terms and conditions of work, health and safety and industrial relations have typically been treated differently. There has been a growing divergence between productivity gains on the one hand, and improvements in wages and conditions for many workers across the automotive global value chain on the other. TNCs that have established industrial relations with unions in some countries fail to respect worker and trade union rights in others.

Fuelling and facilitating this dynamic over recent decades has been a mix of market fundamentalist policies, the financialisation of economic activity and rules of international trade and investment favoured by TNCs. These have tended to exert a general downward pressure on wages, conditions and social protections in many parts of the world. Income and wealth inequalities have reached extremes not seen since the 1920s, moving the world in a direction opposite to authentic sustainable development. In the same vein, the global environmental challenge to produce employment-enhancing cleaner vehicle and fuel technologies as well as revitalize transportation systems has too often been given a back seat.

GLOBAL DOWNTURN HITS

Forecasts for what lies ahead for the global economy point to more difficult times on the horizon and therefore ongoing struggles for workers, trade unions and social allies. The World Bank projects the global economy will shrink by an alarming three per cent this year. The sharp and steep deceleration of worldwide economic activity from growth rates of 3.2 per cent in 2008 and 5.2 per cent at the cycle's peak in 2007 has led to the most widespread economic dislocation since the Great Depression as households and businesses throttle back on consumption and investment.

Despite energy and commodity prices reversing course from their historic highs reached last year, workers and families continue to struggle with badly strained budgets. Downward pressures on purchasing power have accelerated as companies attempt to retrench workers, cut hours and reduce compensation, which further undermines demand and exacerbates insecurities. While impacts vary across regions and companies, ultimately all workers in the sector are affected directly or indirectly. A high degree of uncertainty exists on how severe and prolonged the downturn will be, with deflationary trends already present in some countries.

While governments have injected massive amounts of capital into banks and the financial sector, loans for many enterprises and households remain difficult to access or have been blocked altogether. The financial crisis has meant cash-strapped families can't afford to buy cars while lenders restrict credit lines for working capital and deny loans to companies. This comes at a time when companies' working capital needs increase as inventories accumulate, payment schedules stretch out and capital turnover slows. The combined effects of the downturn and the credit freeze have strained the solvency of companies and contributed to potentially many more bankruptcies, putting countless numbers of workers and their families in jeopardy.

WORLDWIDE VEHICLE DEMAND PLUMMETS

Analysts project that global sales of motor vehicles could drop below 50 million units this year if the current pace continues. If this results, worldwide demand would be at least 10 million units lower than the peak level reached in 2007, a decline equivalent to the output of 40 or so average sized assembly plants. It would mark the lowest annual number of new vehicles sold since the late 1990s.

Nearly every major automaker is affected with the largest volume declines registered by those TNCs with the most presence in the United States. General Motors, Toyota, Ford and Chrysler are counted among these companies. Significant reductions in annual unit sales from the global peak reached in 2007 are also forecast for European and other Asian-based auto assemblers.

Declines have hit nearly every market both geographically and by product segment. Incoming orders for commercial vehicles virtually dried up in many areas as construction, transportation and shipping activities slowed dramatically. The least affected among the vehicle segments are smaller, less expensive, more fuel efficient passenger cars. Generally more affordable for households, such models have also benefited from successful government-funded programs providing purchasers of new cleaner cars with a subsidy if they scrap an old, higher polluting vehicle.

EFFECTS TRANSFER DOWN THE SUPPLY CHAIN

Workers in component manufacturing and ancillary companies confront even more intense restructuring pressures than those that generally exist in assembly operations. Automakers' use of just-in-time systems to cut costs and push efficiency gains means management keeps inventories tight and buffers lean to minimize working capital and increase returns. As final vehicle demand has slumped steeply, orders for auto parts have dropped in tandem. "Demand-pull" production systems more rapidly transmit effects of curtailed final demand across the whole value chain.

For workers at suppliers large and small, employers have pushed to slash jobs, cut hours and consolidate plants. The further down the value chain, the less secure the terms of employment and the more strenuous the conditions of work, meaning the impacts of the crisis become harsher. At small and medium enterprises (SMEs) populating subordinate tiers of production chains, workers are least likely to benefit from social protections or collective agreements due to lower levels of union representation.

Strategies of assemblers and major first-tier component companies have propelled supply chain consolidation in an incessant cost reduction drive to boost margins. Continued cuts in numbers of direct suppliers and a squeeze created by passing down costs while making contracts conditional on ongoing price reductions have fuelled a painful shakeout. The crisis-induced dive in parts orders combined with restricted credit availability has pushed many companies to the brink. Assemblers have been forced to extend to their suppliers financial assistance for working capital and in some cases to restore prior price concessions to keep them afloat. In the face of this, metalworkers and their unions have fought back to defend what is rightfully due to workers at companies such as Visteon, Delphi, Continental, Bosch and Valeo, among many others.

REPERCUSSIONS ACROSS METALWORKING

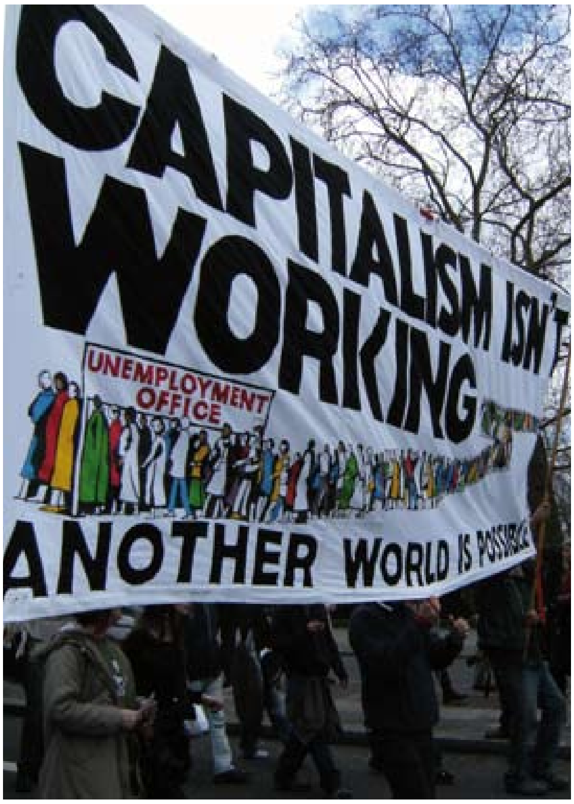
As households and company fleets cut or delay purchases of vehicles, knock-on effects for workers in other metalworking industries have occurred. Steel and aluminium, mechanical engineering, electronics, and metal mining sectors have all seen falling demand from the global downturn, with both manual and non-manual workers affected.

- Global steel output has declined sharply from weakness in automotive, construction and household durable goods sectors. Orders from the motor vehicle industry account for about 13 per cent of global finished steel output with about two tons of steel on average used per motor vehicle built.
- Machine tools and bearings were among the first mechanical engineering subsectors affected. The German-based mechanical engineering association VDMA reports that 30 per cent of Germany's machine tool production is for the automobile industry including component suppliers, citing the auto slump as a significant factor behind declining tool orders.
- In electronics, companies such as Freescale, the leading supplier of semiconductors to the motor sector, and Infineon, Europe's largest, have cut working hours in automotive-related activities.
- For metals, companies in South Africa have announced retrenchments in the mining of platinum, an essential material in automotive catalysts used for vehicle emission control technologies.

Industrial inter-connections across branches of this kind and magnitude indicate the extent to which motor vehicle production has cascading effects across metalworking branches highlighting the sector's strategic position in manufacturing.

WIDESPREAD JOB LOSS AND WORKING HOUR REDUCTIONS

Severe employment declines have affected metalworkers and their communities across all regions of the automotive sector. These have been most devastating in North America, where the crisis first erupted. Hundreds of thousands of automotive workers in the US and Canada have seen their jobs eliminated as scores of assembly and component manufacturing plants shutdown. European workers in many traditional metalworking areas have also experienced large scale employment cutbacks due to consolidations, plant closures and outsourcing, well



G20 demonstrators march in London, April 2009.

Photo: European Metalworkers' Federation

before the global financial crisis hit. When the crisis did hit, workers across the region were forced to confront additional threats to their jobs and livelihoods. As global demand has slumped, so too has production for export. This has particularly affected workers in countries such as Japan that have a relatively high dependence on shipments of automotive products manufactured for final sale or as component inputs overseas.

Workers in non-permanent jobs -- those on temporary and fixed-term contracts and those hired through dispatch labour agencies -- have shouldered a disproportionate burden thus far in the crisis. Automotive manufacturing is among the industries where precarious conditions had spread most, according to an IMF survey completed prior to the crisis. These workers have been the first to lose employment, often without income protection when out of work. Migrant workers face even greater difficulties and insecurities.

Such widespread dismissals expose how the sector's employers abuse weak terms of employment and work relationships as "flexibility". They have shifted responsibility, adjustment costs and risks that should be borne by principal employers onto the backs of workers whose jobs were made precarious. Effects are most pronounced in several Asia-Pacific countries where non-regular jobs came to account for a major share of total employment in the aftermath of the region's 1997 financial crisis. More recently, non-permanent jobs were on the rise in Europe's metal industry, though to a much lesser extent than in Asia.

For many permanent workers, hours worked and compensation has declined due to extended plant shutdowns and down-days ranging from weeks to months. Elimination of shifts and reduced line rates has taken place in plants across regions. Paid time-off has been brought forward in some workplaces, while time-banking measures based on annualised hours have been stretched to their limits. Short-work time schemes have been implemented where such benefits are provided by collective agreements and/or government programs covering otherwise lost wages.

Due to the prolonged downturn there's an urgent need to extend and strengthen income and social protections for workers. Also essential are effective stimulus measures boosting demand and industrial policies that safeguard employment and utilize productive capacity to meet and improve society's transport-related and manufacturing needs.

CONSOLIDATIONS AND MERGERS

Given past strategies of auto TNCs and the industry's globalized structure, the worldwide economic crisis has caused a dynamic that substantially escalates consolidation pressures. This presents many challenges and potential threats for workers. It is essential that trade unions are fully involved from the outset of any contemplated restructuring to guarantee that decisions represent the broad interests of workers and communities rather than narrow financial interests alone.

At the close of 2008, the head of Fiat was widely quoted as saying that over the subsequent two years only a half dozen mass-volume auto companies would remain. While this specific view is not generally held across much of the industry or by many governments, a difficult and challenging process of restructuring and possible integration has begun to unfold involving a number of companies. Preliminary ground work for Fiat and Chrysler to integrate operations has been set in motion. General Motors is undergoing wrenching restructuring affecting workers across nearly every region and particularly in North America and Europe. Challenging issues have arisen for VW and Porsche, as well as for some commercial vehicle manufacturers. Other companies continue to enter into different types of limited forms of partnerships related to design, co-production and parts procurement.

Supply chain consolidation is expected to accelerate. Even before the onset of the crisis, assemblers were pushing to reduce the number of direct suppliers while first tier companies tightened their rationalisation of production sites. Vast numbers of jobs are at stake. To avoid further damage, normal credit lines need to be restored and industrial policies implemented that upgrade supply chains and protect workers.

INDUSTRIAL POLICIES AND GOVERNMENT MEASURES

An International Metalworkers' Federation analysis, shown in the chart over the page, provides a summary of the types of government measures proposed, adopted or implemented for the motor industry in 19 countries, as well as the EU. It is clear that more effective support from governments and commitments by employers are needed to ensure protection of workers and a broad based recovery of the industry. For EU countries, some policies are subject to review by the European Commission. In this regard, the European Metalworkers' Federation has stressed the vital importance of European-level initiatives, and that national-level measures should be consistent with a coherent industrial policy strategy for the sector and thus avoid possibilities for cross-border social dumping.

GOVERNMENT POLICIES FOR THE AUTOMOTIVE SECTOR (PROPOSED, ADOPTED AND/OR IMPLEMENTED AS OF JUNE 2009)

	Australia	Austria	Brazil	Canada	China	EU	France	Germany	Italy	Japan	Korea	Netherlands	Portugal	Russia	Slovak Rep.	Spain	Sweden	Turkey	UK	USA
Credit facilitated to captive automotive financing arms & banks making auto loans	•		•		•	•	•	•			•	•		•					•	•
Credit guarantees, low-interest loans, emergency bridge & working capital loans				•	•	•	•			•			•	•		•	•		•	•
Incentive programs to scrap older vehicles & purchase new cleaner ones		•			•		•	•	•	•			•	•	•	•				•
Funding for R&D and tooling for cleaner vehicles	•				•	•	•	•			•						•		•	•
Reduction in vehicle-related taxes			•		•		•	•	•	•	•									•
Short-time work and partial unemployment schemes		•					•	•	•	•				•			•	•		
Structural adjustment funds for auto sector, including suppliers	•					•	•				•					•				
Expanded training funds for workers	•						•						•						•	
Trade-related measures (market access, tariffs, export finance)	•												•	•						
State equity injection and/or increased ownership stakes				•			•													•
Renewal of government vehicle fleets including cleaner vehicles					•									•						

Source: Press articles

Government measures generally are addressing the following objectives:

- Stimulating motor vehicle demand including incentives to promote the purchase of cleaner new ones in exchange for older less efficient vehicles (shorter to medium-term)
- Protecting employment, income support and skills development (immediate to long-term)
- Addressing company solvency and restoring credit (shorter to medium-term)
- Making progress on cleaner vehicles and fuels (shorter to long-term)

METALWORKING UNION ACTIONS AND RESPONSES

IMF affiliates in all regions are fighting to protect workers, their families and communities through collective negotiations with employers, by mobilizing for government actions to defend and support employment and incomes, and pushing for industrial policies to advance the sector's recovery and progress towards a lower carbon future with good jobs. Affiliates have put forth programs and positions on what needs to be done economy-wide and for the automotive sector. Metalworking union demands and actions call for:

- Prompt adoption of stimulus programs that benefit and protect workers economy-wide. This should include and be based on broad public investments to renew and expand transport and technology infrastructures, strengthen public education and universal health care, and expand training and upgrade skills for workers. Support should be coordinated regionally and provide needed resources at both national and local levels.
- Full implementation of measures to prevent redundancies and retain workers in jobs with company and government-financed benefits that secure workers' income and purchasing power. Coverage should include not only large companies, but SMEs as well. When needed, allowable time periods for such benefits should be extended. At the same time, safeguards should be in place to ensure that employers do not abuse short-time work, temporary downtime, or partial and administrative unemployment as preludes to permanent redundancies.
- All alternatives should be considered and if any restructuring is unavoidable, it must be done in a sustainable and socially acceptable manner. Regardless of ownership and enterprise structure, it is essential that companies negotiate with and governments involve unions from the outset to ensure a long-term commitment and employment safeguards for workers and their communities. Trade unions strongly oppose layoffs and plant closures.
- Effective restoration of access to credit lines for automotive and metalworking companies across the sector's production chains, as well as loans for households and enterprises to finance the purchase of new cars and trucks and other final products. Regulatory protections should ensure that no publicly provided or guaranteed capital is used to fund payouts to shareholders, to pay excessive executive compensation, or to subsidize the outsourcing or shifting of production to the detriment of workers.
- Acceleration of investments in R&D, design and production of advanced motor vehicle and fuel technologies that lower emissions of carbon dioxide and other pollutants. Government policies that support reducing the industry's carbon footprint over time should do so via means that generate and maintain high quality jobs for metalworkers.
- Rejection of attempts by employers and government to exploit the crisis to undermine trade unions and workers' rights.

With challenges for workers and their unions as great as any time in decades, it is imperative to strengthen solidarity. Effective actions are needed to broaden and deepen trade union efforts to organize workers across metalworking enterprises, to block attempts by companies to substitute precarious jobs for permanent ones in the aftermath of the crisis, and to mobilize for coordinated and concerted policies that protect and advance the interests of workers, their families and communities.