european Monitoring Centre on Change

european restructuring monitor *quarterly*

Issue 4 – Winter 2004

The European Restructuring Monitor *quarterly (*ERM *quarterly)* is an information service that analyses data on industrial restructuring in Europe. This issue focuses on information collected from the beginning of October to the end of December 2004.

The European Restructuring Monitor is a project undertaken by the European Monitoring Centre on Change, implemented by Groupe One. ERM is served by a network of correspondents whose task is to register cases of industrial restructuring, reported in the press in the former EU15 and three of the 10 new Member States: the Czech Republic, Poland and Slovakia. Basic information about each case and its employment effects is freely accessible through http://www.emcc.eurofound.eu.int/erm/.

> Overview

During the last quarter of 2004, from 1 October to 31 December, the European Restructuring Monitor (ERM) recorded 311 cases of company restructuring, across the 18 countries monitored: the former EU15 and three new Member States – the Czech Republic, Poland and Slovakia. This represents a sharp increase, compared to the 159 cases recorded during the summer period, from 1 July to 30 September. Job losses totalling 161,009 were announced as a result of 235 of these restructuring cases, a considerable increase compared to the summer months' figure of 158 restructuring cases, totalling 56,342 job losses. On a more positive note, according to press announcements during the last quarter of 2004, 76 cases of company restructuring resulted in business expansion and the creation of 39,330 new jobs. This indicates a significant increase, compared to previous quarters in 2004 – 16,373 new jobs for the second quarter of 2004, and 8,130 for the third quarter.

Once again, a significant number of these new jobs – 15,190 out of 39,330 – are related to expanding business activity in two new Member States, Poland and Slovakia, attracting 10,125 and 5,065 jobs respectively. Among the EU15 countries, France and the United Kingdom (UK) also recorded a high rate of business expansion – 16 and 13 restructuring cases respectively, accounting for 10,640 new jobs in France and 6,990 in the UK.

In Poland and Slovakia, two sectors in particular profit from increasing business activities and investment, the metal and machinery sector (14 cases) and the motor sector (11 cases). Both sectors account for 60% of new jobs announced in these countries, with the most significant increases reported in the automotive industry. Some six major companies active in the industry plan to expand their businesses in Poland: the car manufacturer, General Motors Polska (GM); the component suppliers, Delphi, TRW, Eaton Automotive Systems and Hutchinson Poland; the tyre manufacturers, Stomil, part of the French Michelin group, and Bridgestone of Japan. According to press announcements, this expansion will result in the creation of 2,938 new jobs. In the expanding Slovakian automotive industry, Getrag Ford Transmissions, part of the Ford Premier Auto Group (PAG), and Visteon Slovakia, a components company, plan greenfield investment, which will enable the creation of an additional 1,400 to 1,900 jobs in the longer term. Three further suppliers to the industry have also decided to set up operations in Slovakia: Teves, part of the Continental group, the Brazilian company, CRW Plásticos, and Bourbon Fabi SK, accounting for 915 new jobs (for further details on these cases see the sector focus on the automotive industry below).

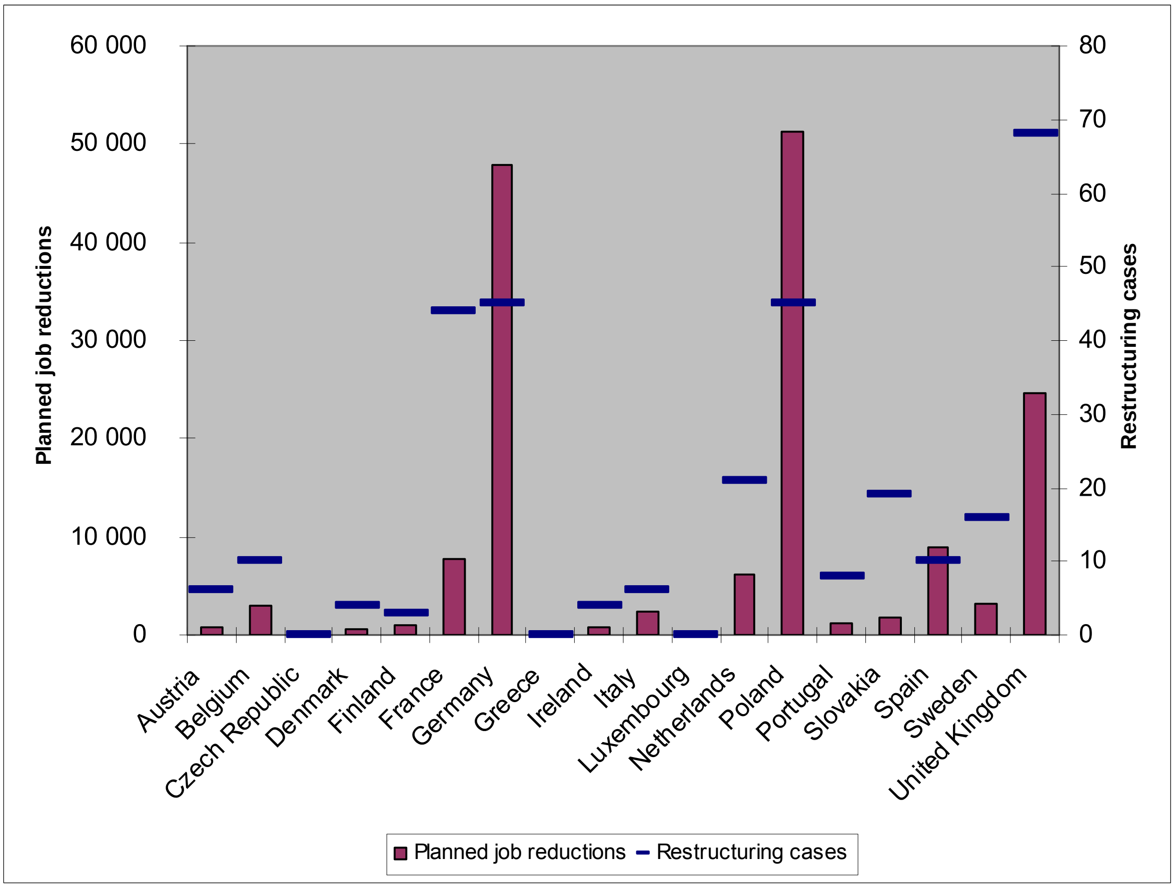
The French picture is dominated by the construction sector, where two large projects account for 77% of the announced job creations. The Paris Airport Group (Aéroports de Paris, ADP) selected Unibail, the property company, to develop a shopping centre, based on the site of the Paris-Charles-de-Gaulle airport, leading to the creation of 2,000 to 3,000 new jobs in the future. Arcour, a subsidiary of Vinci and a leader in construction and related services, was chosen to build the new A19 motorway, between Artenay and Courteney, the construction of which will create 5,000 new jobs in the next 10 years. In the UK, the majority of new job creations announced in the press are in the transport and storage, and commerce sectors – particularly in the supermarket, retail or supporting industries. For example, the supermarket chain, Tesco, and the German-owned discount food retailer, Aldi, are undergoing expansion: the latter already has 278 outlets in the UK, and aims to expand to 450 shops within the next five years, as part of a £500 million (€722 million[1]) expansion drive. This would mean that Aldi would be employing an additional 1,300 people,

[1] All euro equivalents are calculated at an exchange rate of €1.44 per pound sterling.

taking its UK workforce to a total of 4,300. Furthermore, Sports World International is planning to create more than 1,000 jobs, following the construction of a distribution centre, on the site of the former Shirebrook colliery in Derbyshire (a brief analysis of the economic and labour market context, and of all reported restructuring cases in the UK is given in the country focus below).

Figure 1 below illustrates the distribution of recorded cases and job reductions for the last quarter of 2004, across EU15 and the three new Member States.

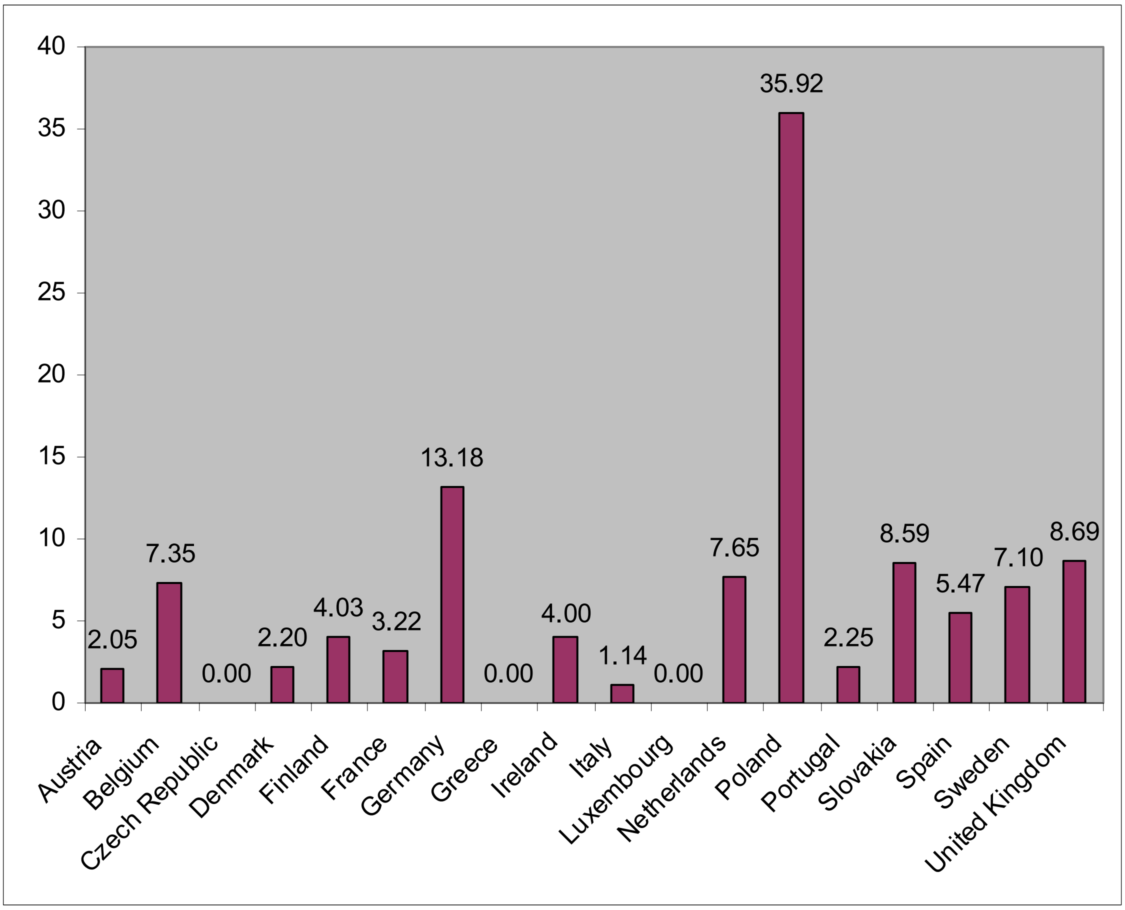
Figure 1: Distribution of recorded restructuring cases and job reductions across the EU during the 4th quarter



As this figure shows, the UK displays the highest number of restructuring cases announced (69), followed by Poland (55 cases) and Germany (45), and France (44). However, when taking into account the number of job losses announced in these four countries, Poland and Germany lost significantly more jobs in each restructuring case, than the UK and France. The overall figure for job losses in Poland amounts to 51,187, and to 47,809 in Germany; in the UK the figure is lower at 24,761 and in France it is even lower again at 7,687. Indeed, most of the restructuring cases reported in France only accounted for a relatively modest number of job losses, which were also outweighed by the number of announced job creations.

In order to establish a more meaningful comparison between the EU countries monitored, the size of the 18 economies needs to be taken into account. Figure 2 presents the distribution of job losses per 10,000 people employed, illustrating the relative impact of those reductions nationally.

Figure 2: Announced job reductions due to restructuring (per 10,000 people employed) during the 4th quarter

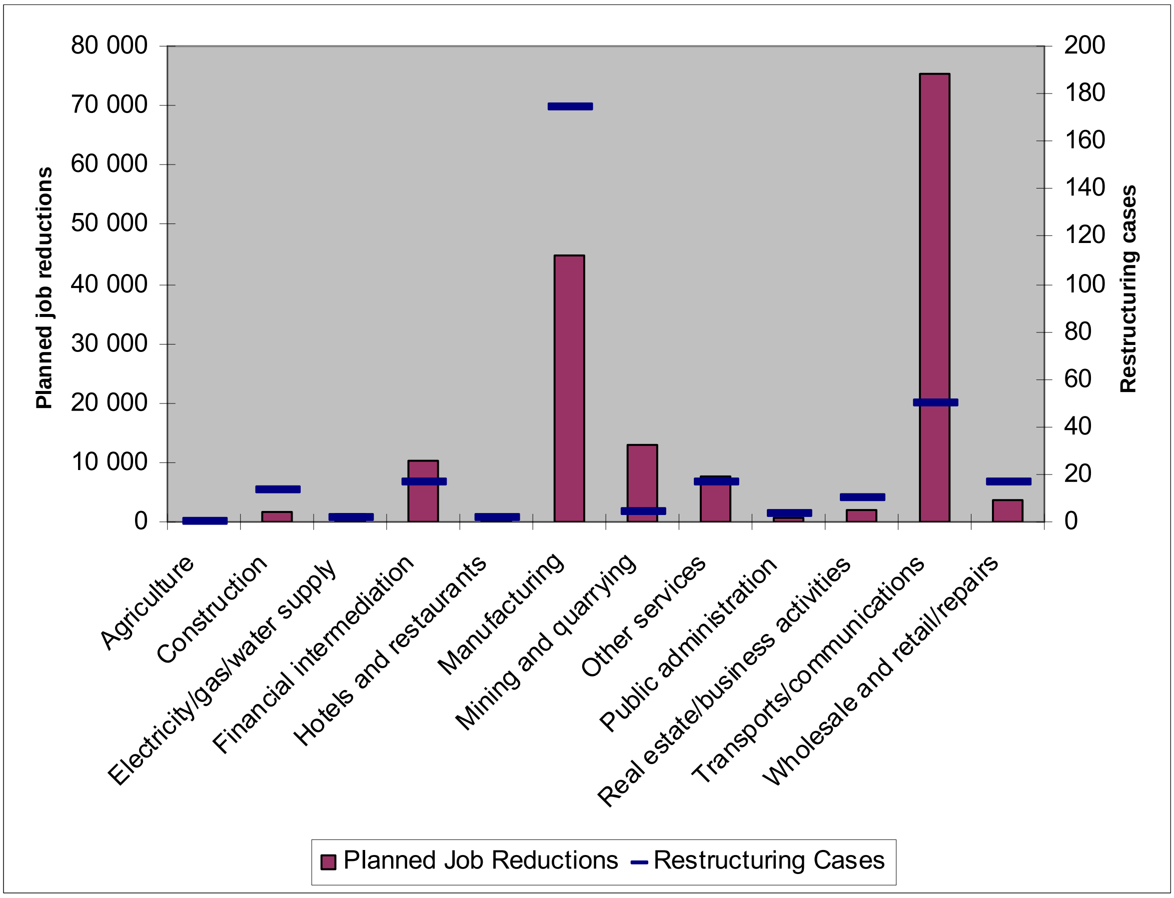


Clearly, the Polish economy will have to deal with the most significant employment effects of announced restructuring activities, with 35.92 announced job losses for every 10,000 workers employed. This is related to extremely high job losses in two sectors – mining and transport, and communications, which includes post and telecommunications services. In November 2004, Poland's national postal services provider, Poczta Polska, announced a restructuring programme, which will put up to 30,000 of the 100,000 jobs at risk. According to management, the company's workforce outweighs its current needs. At the same time, Poland's national telecoms operator, Telekomunikacja Polska, plans to dismiss 3,500 of its 30,385 workers in 2005. This is due to growing competition, following the progressive deregulation of the telecoms sector, which necessitates more economic operations. The two largest restructuring cases in the Polish mining sector involve Kompania Węglowa, which plans to reduce its workforce from 74,000 to 62,000 people, and the merger of the Bogdanka mine, with a power generation facility in Kozienice. Some 1,000 jobs may be lost as a result of this merger, which is part of the government's strategy to privatise the hard coal mining sector.

Compared to previous quarters, Germany, one of the large European economies, shows a very high level of restructuring activity, with 13.18 job losses announced per 10,000 jobs (3.04 job losses announced per 10,000 jobs during the summer period). In general, employment effects, resulting from restructuring activities, are felt more severely in 10 of the 18 EU countries monitored – Belgium, Finland, France, Germany, the Netherlands, Poland, Portugal, Slovakia, Spain and the UK. Only the Czech Republic, Greece and Luxembourg stand out, with no job losses recorded over the last quarter of 2004.

Figure 3 below illustrates the sectoral distribution of the 235 restructuring cases recorded by the ERM, during the fourth quarter of 2004, from 1 October until 31 December 2004, along with related employment effects. Trends observed in previous quarters continue, with transport and communications, and manufacturing showing the highest rates of planned job reductions. In contrast to previous quarters, the mining and quarrying sector also recorded a high number of job losses (13,000), largely due to the two Polish restructuring cases in this sector.

Figure 3: Distribution of recorded cases and job reductions across sectors during 4th quarter



These figures reflect the fact that large restructuring cases have occurred in the transport and communications, and manufacturing sectors. In the transport sector, the German railway operator, Deutsche Bahn AG – a 100% state-owned public limited company since 1994 – announced in December plans to reduce its workforce by 9,000 people. Following this announcement, the railway operator and trade unions have come to an agreement, which guarantees 150,000 jobs at Deutsche Bahn until 2010, in return for a 5.5% reduction in staff costs. Some sources indicate, however, that the operator is planning to cut about 3,600 jobs in the passenger division next year. In the Netherlands, the railway maintenance services company, Nedtrain, which is a subsidiary of the Dutch railway operator, Spoorwegen NS, also plans to cut some 600 jobs out of its 2,500 strong workforce, over the next four years. Meanwhile, the French railway company, SNCF, foresees another restructuring, affecting 400 jobs in the freight division in the Lorraine Region, in addition to the 3,500 redundancies announced in January 2004. Meanwhile, two major companies active in the railway equipment sector – Canadian train manufacturer, Bombardier, and the French Alstom – also plan to reduce their workforce. Bombardier announced job cuts of nearly 2,000 staff in the UK, Germany and Austria, while 540 workers at the Alstom plant in

Eastleigh lost their jobs due to the plant's closure. In Spain, the national airline, Iberia, presented a job reduction plan based on voluntary early retirement measures. Since then, 2,458 of its employees have opted for early retirement. On 4 December 2004, the company decided to continue, until 2007, with its job reduction plan, which includes early retirement and relocation measures for up to 2,500 people.

In the communications sector, the German telecommunications services provider, Deutsche Telekom AG, intends to reduce its workforce by up to 10,000 people over the next two years. This is part of an ongoing cost-cutting programme, aimed at increasing efficiency of its fixed-network brand, T-Com. The latter suffers from falling sales, due to growing domestic competition and the increasing trend of calls being made by mobile, instead of fixed-line, services. In Belgium, DHL, a subsidiary of Deutsche Post, plans to let 1,700 of its workers go in 2008, thus reducing its activities at Brussels Airport by 50%.

In the manufacturing sector, the automotive industry will be affected the most by restructuring activities (see also this *quarterly*'s sector focus on the automotive industry). In Germany alone, Opel, part of General Motors (GM), announced that it will cut 10,000 jobs by 2008, including 8,000 jobs at the manufacturing plants in Rüsselsheim and Bochum. Mercedes of DaimlerChrysler also plans to reduce its workforce by 1,100 to 1,200 people, at its manufacturing site in Bremen, at the beginning of 2005. Furthermore, the Spanish public consortium, SEPI, and its subsidiary, Izar, which specialises in the manufacture of ships for civil and military use, has launched an industrial plan. This plan foresees 4,100 redundancies throughout the company's plants in Spain. The company's management has put forward two main reasons for the restructuring: a) the company received European Commission aids amounting to €1 billion, which turned out to be illegal and which have to be paid back; b) its market share in military activities has decreased over the last years, with losses amounting to €659 million since the year 2000.

Figure 4 below provides a more realistic comparison between sectors, as it takes the sector size into account. It outlines the sectoral breakdown of announced job losses, per 10,000 people employed in each sector, in the 18 countries monitored.

Figure 4: Announced job reductions due to restructuring across sectors (per 10,000 people employed) in the 4th quarter

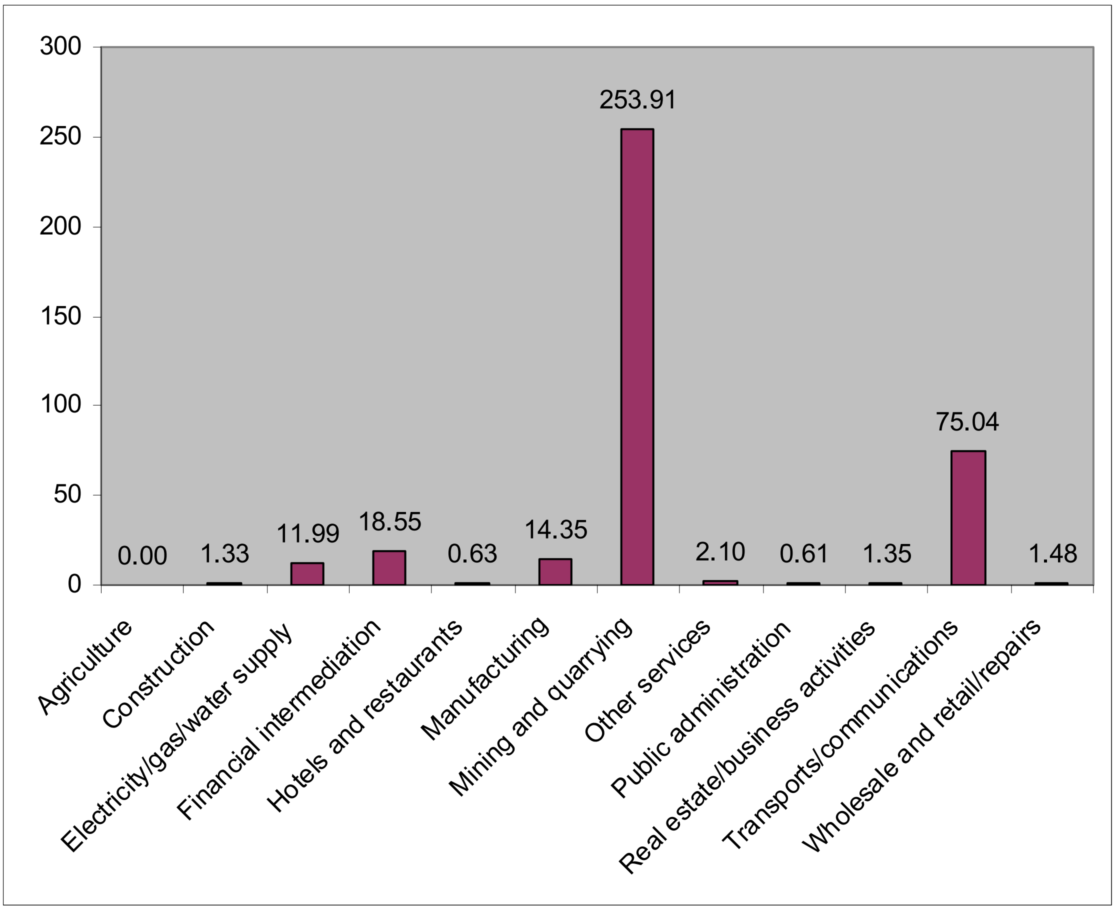


Figure 4 illustrates the high impact of the two Polish restructuring cases in hard coal mining, where 253.91 per 10,000 jobs will be lost. Major redundancy measures such as these, involving up to 13,000 job losses, represent a severe blow to a sector which already has a relatively small workforce at European level (EU25: 837,000 in 2003). However, the mining sector is likely to undergo further restructuring activities, with changes in the employment structure in the new EU Member States, particularly in Poland, away from an agricultural and heavy industry-based economy, towards a service and manufacturing-orientated economy (see also country focus in last *quarterly*'s issue 3, Autumn 2004).

In addition, the transport and communications, financial intermediation, and manufacturing sectors continue to undergo restructuring, with increasingly severe employment effects in these sectors, at a rate of 75.04, 18.55 and 14.35, respectively, jobs lost out of every 10,000 people employed. This represents a significant increase in two of the three sectors, compared to the previous quarter, which showed job losses of 14.05 for transport and communications, and 6.71 for manufacturing; in the financial intermediation sector, job losses only increased slightly from the previous figure of 17.97. Nevertheless, jobs are declining in the financial services sector, where Deutsche Bank plans to cut its workforce by some 7%, the equivalent of 2,300 jobs in Germany, by 2007. At the same time, the Netherlands' biggest bank, ABN AMRO, announced a job reduction plan involving 2,850 jobs, or 3% of its worldwide staff. In the UK, offshoring remains a threat to both banking and insurance jobs. Lloyds TSB said it was planning to transfer a further 1,000 jobs to India, while Royal & Sun Alliance is latest company to announce cost-cutting plans, by moving

1,200 jobs to Bangalore. A further 3,000 jobs in the UK are to be cut at Abbey, as a direct result of the merger with Banco Santander Central Hispano (BSCH).

> Country focus

This section explores the economic and labour context of company restructuring in the United Kingdom (UK) – the country with the most restructuring cases recorded during the past quarter, and with 8.69 job reductions announced per 10,000 people employed.

>> *Spotlight on the UK*

Employment in the final quarter of 2004 continued to display the same turbulence that has persisted throughout 2004. Of the 69 restructuring cases recorded in ERM, 57 involved job losses in excess of 100 – the highest rate in the 18 EU countries monitored. Nationally, however, consistent economic and employment growth has also been displayed. Thus, the economic landscape in the UK is simultaneously changing and improving, while having to deal with the global pressures of outsourcing, and handling the long-term decline in its traditional manufacturing sector. This country review will outline the general picture in relation to employment, before going on to look at the particular pattern uncovered by the ERM cases of restructuring.

Economic growth

The UK government, as well as many leading newspapers, have highlighted the fact that its economy has now entered a record breaking, 50th quarter of continuous growth. According to a Citigroup report, Britain has exceeded euroland in economic growth for 12 successive years (*Sunday Times*, 2 January 2005). The report attributes the UK's economic performance to a higher proportion of people employed in knowledge-intensive industries, without, however, detailing the employment scope, or magnitude, of that set of industries. Further evidence supports this growth pattern; the latest *Sunday Times* Mandis index, for example, indicated that 12% fewer companies got into difficulty in 2004, compared to 2003. The Mandis index monitors corporate distress from a database of more than 100,000 companies throughout the UK. In 2004, it recorded 4,834 companies in distress, which represents the lowest figure since 2000.

Moreover, according to the Office for National Statistics (ONS) on 19 January 2005, the employment rate for people of working age has also reached the highest level since comparable records began in 1971. The number of people in employment increased by 99,000, over the quarter ending November 2004, and overall by 271,000 in that year, to reach 28.49 million. The average number of job vacancies for the three months to December 2004 was 648,800 – this represents an increase of 4,400, in comparison with the previous quarter, and a total of 44,900 job vacancies over the year. In the period 1 October 2004 to 31 December 2004, the ERM recorded a total of 10,190 job creations in the UK, through business expansion (6,990 new jobs), internal restructuring (3,000) and relocations (200). Indeed, the UK's Minister for Work, Jane Kennedy, welcomed these figures as they 'show employment at its highest ever level [and] the number of people in work has increased by over 200,000 in the last 12 months and by two million in the last seven years' (*The Guardian*, 15 December 2004).

Unemployment, on the other hand, continues to fall: the number of people claiming benefit, *jobseeker's allowance*, fell by 6,200 in December to 826,200 – the lowest rate for almost 30 years. At present, the UK has one of the lowest unemployment rates across the EU, with only Ireland and Luxembourg having a lower rate. Depending on the definition used, the UK had a rate of 4.7% for the three-month period, August to October 2004 (Labour Force Survey, using the ILO definition), which is down 0.1 percentage points from the previous quarter. This is compared to a eurozone average of 8.9 % for the same period (Eurostat, November/December 2004).

This growth pattern can be attributed partly, to comparative wage costs of the EU countries, where the UK is situated in the middle of the pre-accession countries, with an average wage cost of nearly £29,700 (€42,926). Consequently, the UK is the seventh-most expensive country in Europe. However, average earnings increased by 4.1% from January to October 2004. Over the same period, France, Belgium and Denmark are more expensive for employers, while Ireland, Finland and Spain are cheaper (R. Fletcher, 2 January 2005).

Sectoral pressures

As mentioned earlier, while there is aggregate employment growth, this hides particular sectoral problem areas. Jobs continued to be lost in two important sectors: manufacturing and financial services. In the three months to October 2004, the number of manufacturing jobs fell by 112,000 to 3.26 million in the UK. Compared with 2003, the statistics also showed that the highest job losses occurred in the textiles, leather and clothing industry, where employment levels are at their lowest, since records began in 1978. This is related to significant restructuring activities within this industry over the last decade, where companies relocated to other European countries.

Britain’s general union, GMB, which has a high membership in the manufacturing sector, has expressed its concerns about such changes: ‘It's true to say that unemployment has fallen by over 800,000 since May 1997. Of course, that's something to celebrate, but it blithely ignores the fact that nearly 900,000 jobs have been obliterated in the manufacturing sector. It also overlooks the fact that there are 234,000 more people of working age who are economically inactive than there were in 1997 (GMB press release, 26 December 2004). According to Amicus, a general union with a high density of membership in both manufacturing and financial services, the decline in manufacturing means that: ‘9,000 highly skilled, highly paid manufacturing jobs are lost every month. This is devastating, not only for those individuals who are unlikely to work in manufacturing again, but for the wider UK economy, as we know that those who find jobs in other sectors take an average 40% cut in earnings’ (Amicus, 15 December 2004).

Offshoring continues to take a severe toll on certain UK industries and areas. The financial services and insurance sector is one of the worst affected areas, where it is forecasted that another 12,000 jobs are to move from the UK to lower wage countries in Asia and South Africa in 2005 (J. Treanor, 27 December 2004). This loss is compounded by the additional 18,000 jobs lost in 2004. From October until December 2004, ERM monitored 6,281 job losses within the financial services sector. In an effort to alleviate this decline, Amicus calls upon the government to boost education and training. This call is echoed by Digby Jones, the head of the Confederation of British Industry (CBI), who says that better basic education will help reduce the threat of offshoring: ‘High skill levels are the greatest protection [...] from the challenges of globalisation’ (J. Treanor, 28 December 2004).

The underlying problem that this situation poses is voiced by David Fleming, national officer of Amicus: ‘If the economic tide recedes then our communities are going to be left high and dry. You can't simply take thousands of jobs out of the economy with all the skills and brains that are involved and pretend it won't make a difference’ (J. Treanor, 27 December 2004). This implies that the current growth and subsequent high level of employment in Britain is hiding the impact of offshoring on the economy and certain regions, such as Scotland and north England, where most call centres are located.

Reported restructuring cases

Between 1 October and 31 December 2004, ERM recorded 69 restructuring cases in the UK; these were announced in the press, primarily in the *Guardian* and the *Financial Times*, as well as in other reputable news outlets. As Table 1 shows, 13 of those cases related to business expansion and the creation of up to 6,990 jobs; the remaining 56 cases result in 24,631 job losses, representing a net job loss of nearly 17,000.

However, one of the biggest single job losses – of over 100,000 civil service jobs – does not feature in the last quarter's figures for the UK, since the government first announced its intentions of planned cost savings in the public sector, in parliament last July. Details of how these savings would be secured were sparse until earlier this year, when *The Scotsman* published further information outlining where some of these jobs would be lost (25 January 2005).

Table 1: Breakdown of employment effects by restructuring type in the UK in the 4th quarter

Type of restructuring	# Planned job reductions	% Planned job reductions	# planned job creation	% planned job creation	# Cases	% Cases
Internal restructuring	12,429	50.72	3,000	29.44	29	42.03
Bankruptcy / Closure	6,202	25.05	0	0	16	23.19
Business expansion	0	0	6,990	68.6	13	18.84
Merger / Acquisition	3,150	12.72	0	0	5	7.25
Relocation	550	2.22	200	1.96	3	4.35
Outsourcing	2,300	9.29	0	0	3	4.35

Looking at the various figures for job losses, internal restructuring resulted in the highest number of job losses (12,492), followed by bankruptcy and closure (6,202), merger/acquisition (3,150), outsourcing (2,300), and lastly, relocation (550). The highest impact from restructuring was experienced in the financial services sector (see Table 2), even though it had fewer cases than the chemical sector. Again, this is due to continued offshoring, with the Royal Sun Alliance becoming the latest company to announce cost-cutting plans, by transferring 1,200 jobs from Britain to Bangalore over the next two years. The Lloyds TSB bank also plans a transfer of a further 1,000 jobs to Bangalore and Mumbai, which will increase its workforce in India to 2,500 by the end of 2005. Following the takeover of the bank and mortgage provider, Abbey, by Banco Santander Central Hispano (BSCH), the new owners have predicted a reduction of 3,000 employees. In the performing arts category, the other notable single case of internal restructuring was at the BBC, where a reduction of 2,900 staff was announced in addition to the relocation of key departments to Manchester, to help secure the corporation's financial future. About 2,500 middle managers and support staff will be made redundant, and a further 400 jobs will go in the factual and learning divisions.

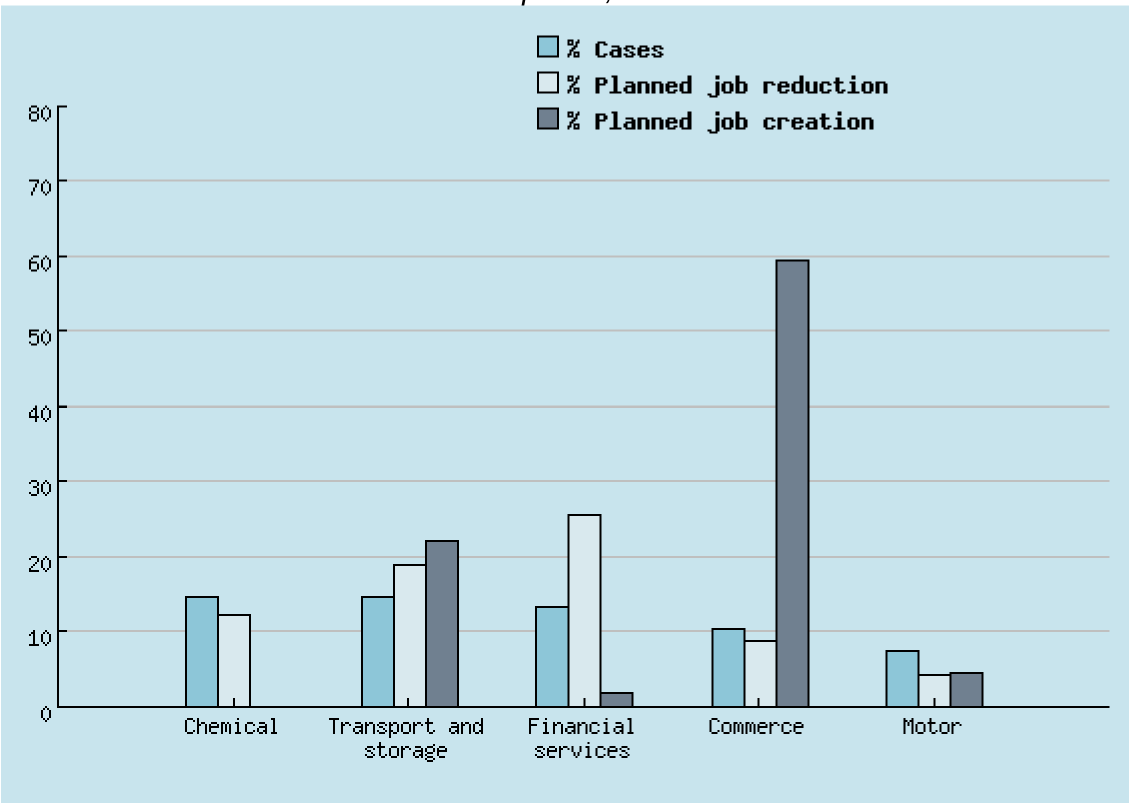
Table 2: Breakdown of employment effects by NACE sector in the UK in the 4th quarter

Sector	# Planned job reductions	% Planned job reductions	# planned job creation	% planned job creation	# Cases	% Cases
Chemical	3,050	12.32	0	0	10	14.49
Transport and storage	4,630	18.7	2,260	22.18	10	14.49
Financial services	6,281	25.37	200	1.96	9	13.04
Commerce	2,150	8.68	6,050	59.37	7	10.14
Motor	1,054	4.26	460	4.51	5	7.25
Post and telecommunications	804	3.25	970	9.52	5	7.25
Health and social work	850	3.43	0	0	4	5.8
Metal and machinery	328	1.32	0	0	3	4.35
Education	750	3.03	0	0	3	4.35
Food, beverage and tobacco	238	0.96	100	0.98	3	4.29
Publishing and media	1,000	4.04	0	0	2	2.9
Consultancy business services	130	0.53	0	0	1	1.45
Extractive industries	0	0	0	0	1	1.45
Textiles and leather	196	0.79	0	0	1	1.45
Performing arts	2,900	11.71	0	0	1	1.45
Construction and woodworking	0	0	150	1.47	1	1.45
Hotel, restaurant and catering	200	0.81	0	0	1	1.45
Maintenance and cleaning	200	0.81	0	0	1	1.45
Glass and cement	0	0	0	0	1	1.45

While less notable in terms of employment figures, the motor sector has also continued to decline. The decision by Ford to close the Jaguar Browns Lane plant in Coventry was announced in late September 2004. The impact of this decision already started to have an effect, however, in the final quarter of 2004, particularly in union circles, when news followed that the Jaguar Racing Team was up for sale, with another 350 possible redundancies. Vauxhall (General Motors, GM) and BMW's Swindon Body Pressings both issued notices to over 400 employees. Vauxhall's job cuts were part of GM's overall plan to cut up to 12,000 jobs across its loss-making European operations. Some 340 jobs are expected to go at the Ellesmere Port plant in Cheshire and another 94 jobs at the van manufacturing facility in Luton. Also, in the manufacturing sector, there was news of the virtual elimination of the UK's train building capacity, with the announcements from Bombardier and Alstom: Canadian owned Bombardier is to cut 560 jobs at Britain's only remaining train manufacturing plant in Derby; in early 2004, Alstom closed its UK plant at Washwood Heath, Birmingham, resulting in the loss of 1,000 jobs. In the final quarter, the decision followed to close Alstom's Eastleigh depot – with the loss of 540 jobs – by the end of 2005. Furthermore, the Automobile Association (AA) is to close three businesses, including its 122-strong chain of service centres; the three units employ about 1,300 people. The AA is also closing down its mobile tyre fitting operation, Tyre Fit, and its vehicle inspections operation.

If one wanted to identify where business expansion was taking place, results from the last quarter of 2004 provide a clear insight. Figure 5 below indicates that in the fourth quarter, business expansion was greatest in the commerce and transport and storage sectors.

Figure 5: Distribution of restructuring cases and employment effects in the UK in the 4th quarter, in %



Aldi's planned £500 million (€722 million) expansion drive in the UK, for example, could result in an extra 1,300 people, taking its UK workforce up to 4,300. The supermarket chain is also investing in a new £30 million (€43.5 million) office and distribution headquarters for Wales and west England, as it continues its aggressive expansion strategy in the UK. Similarly, Tesco, the largest UK supermarket chain, continues to expand, while Sainsbury's is the only chain that is reducing its workforce. In the transport sector, low cost airline carriers are also set to expand. Ryanair, for instance, has announced nine extra routes from Liverpool. The company predicts that this expansion will result in over 1,000 new jobs in the Liverpool area. At the same time, TUI, in the guise of Thomsonfly, a new low-cost airline, started operations in March, at Coventry Airport, and in October, in Bournemouth. In its first year of operation, 260 direct jobs were forecasted, with plans for many additional indirect jobs in the localities.

References

Amicus, *News Release*, 15 December 2004; 'Employment reaches new high', *The Guardian*, 15 December 2004; Eurostat, *'Euro-zone and EU25 unemployment stable at 8.9%*', 7 January 2005; '5,000 civil servants to lose jobs in "efficiency" overhaul', *The Scotsman*, 25 January 2005; Fletcher, R., 'Ireland trumps Europe's best for labour costs', *Sunday Times*, 2 January 2005; Fletcher R., 'Germany tops Europe's labour costs league', *Sunday Times,* 2 January 2005; GMB Union Press Release, *'Gone, or gone abroad - 60,000 manufacturing jobs lost in 2004'*, 26 December 2004; Office for National Statistics (ONS), 'GDP growth UK economy up by 0.7% in Q4 2004', 26 January 2005; Smith, D.,

‘Economy has 14th year of growth’, *Sunday Times*, 2 January 2005; Treanor, J., ‘12,000 jobs could go offshore says union’, *The Guardian*, 27 December 2004; Treanor J., ‘Homely solution to the offshore exodus. The office at home could help stem the flow of jobs leaving UK’, *The Guardian*, 28 December 2004.

> Sector focus

This quarter the spotlight is on the European motor sector, part of the manufacturing industry, and the third sector most affected by restructuring activities during this period (37 cases accounting for 16,079 job losses). This section also provides details of the most important cases in the sector, as reported in the press and recorded by ERM.

>> *Spotlight on the automotive industry*

The automotive sector – i.e. the manufacturing of vehicles (cars, trucks, vans, buses, etc) and vehicle parts – is one of the largest and most global of all industries. In 2002, it produced over 59 million cars and trucks worldwide, with western Europe accounting for more than 17 million of that total. The industry is a vital part of the European economy, and, at the same time, Europe constitutes one of the industry's most highly competitive and important markets. Production has also grown in some of the new Member States – the Czech Republic, Hungary, Poland, Slovenia and Slovakia (EMCC, 2004).[2] The economic output of the automotive industry has nevertheless slowed over the past five years across the EU. Although production of motor vehicles in western Europe rose by 1.3% in the first quarter of 2003, compared to the first quarter of 2002, new vehicle registrations dropped significantly: minus 3.8% for passenger cars and minus 0.7% for commercial vehicles at the start of 2003, compared to the start of 2002 (ACEA, 2003).

Industrial manufacturing has been a major source of innovation since the Second World War, in many areas, from production and technological developments to organisational models and inter-business relations. Since the 1980s, control of the final assembly of motor vehicles has gradually been concentrated in a small number of transnational companies. In recent years, the sector’s structure has evolved into a globally dispersed system, where large firms and groupings dominate production. An important feature of the automotive sector is the high proportion of international trade in domestic production, as seen in Austria, Belgium and in the major manufacturing countries, where production is often largely earmarked for foreign markets – a situation that is also becoming increasingly evident in Poland. The main drivers of this ongoing organisational change are: global competition; the growth of the supply industry; the impact of emissions and recycling legislation on vehicle technologies and construction; and growing consumer demand for greater choice (increased safety, sophistication, fuel economy, etc). All of these issues have also had a significant impact on vehicle and manufacturing technology (EMCC, September 2004).[3]

The motor vehicle and trailer manufacturing sector employed a total of 1.9 million people in 2002, representing about 6% of total employment in the manufacturing industry of the

---

[2] For a geographical distribution of the main car assembly plants across Europe, see EMCC’s *Interactive map* at www.emcc.eurofound.eu.int/automotivemap. This map also indicates the scale and distribution of investment in EU Member States, particularly in some of the new Member States.

[3] In September 2004, EMCC published an online dossier, which is a compilation of reports, regional and company case studies as well as scenarios, providing an in-depth analysis of the trends and forces driving change in the sector (see *EMCC dossier on the European automotive industry* at www.emcc.eurofound.eu.int/content/source/eu04017a.html).

former EU15 countries. If indirect[4] employment is included, the motor vehicle sector accounted for a total of approximately 12 million workers in 2001.

Direct employment in motor vehicle manufacturing has dropped slightly and is expected to decline even further in the coming years. There has, however, been a rise in employment among the major suppliers. This trend reflects the above-mentioned reorganisation of the industry, through outsourcing, and the focus on core activities by major motor companies. The rise in unemployment in the vehicle manufacturing industry, across the EU in recent years, has been generated by moving labour to the supply chain, which expanded in 2001 (+ 4.65% according to Eurostat). It also reflects the European economic downturn, as well as the resulting drop in production that has lately characterised the industry, particularly the Italian car market.

The level of employment in the automotive industry also varies tremendously from one country to the next. It ranges from as high as almost 11% of total manufacturing-dependent employment in Germany, the equivalent of nearly 900,000 workers, to a marginal level in Greece of only 3,000 workers in 2001. According to EIRO (December 2003), the significance of the sector depends on a number of elements, including: the traditional presence of national car manufacturers, as in France, Germany, Italy, Spain, Sweden and the UK; the dominance of vehicle manufacturing, as opposed to the dominance of the supply chain; the establishment of 'greenfield' sites in recent decades, mainly through foreign investment, both within the EU and, significantly, in central and eastern European countries; merger and acquisition activity, which has been increasing since the beginning of the 1990s; and the thorough reorganisation processes, which have marked the development of the entire sector in recent years.

The crisis in the automotive sector is partly due to Europe's stagnating economy, the international competition that necessitates better ways for combining resources, and poor labour market conditions. The decline in passenger car registrations is probably the consequence of a combination of factors in the overall economic context, including high economic uncertainty, soaring energy prices, slow economic growth in the main European car markets, fewer incentives arising from tax measures introduced in Italy towards the end of 2002, and the aftermath of the Iraqi crisis.

In the last quarter of 2004, some of these driving forces have impacted on several European automotive companies. The ERM database reported 40 restructuring announcements, signalling the loss of 16,079 jobs and the creation of 8,276 jobs in the sector. Sixteen of the cases involved internal restructuring, another 19 cases involved business expansion, four stemmed from bankruptcy or closure and one entailed relocation. Some 23 of the 40 cases reported, relate to the manufacture of parts and accessories for motor vehicles and their engines, while twelve relate to the manufacture of motor vehicles; four of the cases concern the manufacture of bodies (coachwork) of motor vehicles, trailers and semi-trailers, and only one case concerns the manufacture of motor vehicles, trailers and semi-trailers.

Cases of restructuring

Germany accounted for 75.5% (12,136) of the motor sector's job losses in the last quarter of 2004, due to five internal restructuring processes (11,836 job losses) and one relocation (300 job losses); no job creations are predicted for the sector. Spain and the UK accounted for 9.5% (1,527) and 6.6% (1,054), respectively, of job losses. Conversely, with 13

[4] 'Indirect' employment includes activities such as recycling; sale, maintenance and repair of motor vehicles; land transport (land passenger transport, taxi operation, freight transport by road); renting of automobiles and other land transport equipment; construction of highways, roads and other civil engineering works.

business expansions in eastern Europe, the creation of 3,881 new jobs in Poland (46.9% of total job creations in the motor sector) and 2,315 in Slovakia (28.0%) has been predicted.

The biggest restructuring case, with 10,000 direct job losses announced, will occur following internal restructuring at the General Motors (GM) unit, Adam Opel AG, in Germany. This restructuring activity foresees a loss of 8,000 jobs by 2008 at two of the four manufacturing plants in the country, in Rüsselsheim and Bochum. The plan is to intially cut 3,000 jobs at the Bochum plant in 2005, while another 1,000 will go by 2007. Bochum is GM's largest European site with 7,600 staff, but according to an internal comparison, it is less productive than other sites. At present, Opel employs approximately 32,400 people in Germany. In early 2004, GM Europe announced plans to reduce its workforce by 12,000 over the next two years across its loss-making European operations. Apart from the internal restructuring in Germany, three other cases occurred in Spain (up to 618 job losses out of 7,400 jobs), Sweden (500 job losses out of 5,600 jobs) and the UK (434 job losses out of 7,500 jobs), in spite of the efficiency levels achieved in the UK over the last year. In Spain, GM has presented a job reduction plan for 503 of its workers, and intends to create up to 618 redundancies with indirect measures. The job reduction plan needs to be agreed by the labour representatives and by the regional authorities. In Sweden, 300 workers and 200 administrative employees will be affected by this restructuring, which is aimed at reducing structural costs in the short-term. The company spokesperson said no decision, regarding a long-term strategic solution, has yet been taken. In the UK, according to the Transport and General Workers' Union (TGWU), 340 jobs are expected to be cut at the Ellesmere Port plant in Cheshire and a further 94 jobs at the van manufacturing facility in Luton.

However, the GM Group also accounts for a high level of job creation, representing 20% of all job creations in the sector for the final quarter of 2004. GM's Polish brand, General Motors Polska expects to hire a further 1,000 people at its manufacturing plant in Gliwice, in order to meet labour requirements, stemming from the assembly of the new *Zafira* model from autumn 2005 onwards. At present, the manufacturing plant in Gliwice employs 2,000 people and assembles the *Astra II* and *Agila* models.

In addition to GM's restructuring activities in Germany, the DaimlerChrysler Group also announced an internal restructuring of its Mercedes site in Bremen, in northern Germany. Between 1,100 and 1,200 jobs will be cut on a voluntary basis, or through retirement measures. Mercedes currently employs around 15,000 workers in Bremen, however, 800 workers at most could be moved to other production sites in Rastatt (southern Germany), Berlin or Hamburg-Harburg.

The second biggest restructuring involves Michelin in France. The company is planning to expand its tyre production facilities at Stomil, located in Olsztyn (Poland), where 1,200 new jobs are due to be created. Similarly, the German/US company, Getrag Ford Transmissions, a member of the Ford Premier Auto Group (PAG), has decided to proceed with a greenfield investment in the industrial zone of Kechnec, near the city of Košice in Slovakia. The company forecasts a production of about 300,000 gearboxes per year at this new site, and predicts that the investment will generate at least an additional 1,000 new jobs with subcontractors. At the same time, Ford's Team Jaguar could still shut down its famous Brown's Lane (Coventry) factory in the UK, which would result in the loss of 350 jobs. Economic difficulties have been further compounded by a slow-down in Ford car sales in Europe and North America over two years, and the continuing lack of profitability of Jaguar cars. Jaguar's collapse would also add to unemployment rate among the specialist workforce in the British motor racing industry. On a more positive note, Ford plans to invest £169 million (€244 million) in its manufacturing facility at Dagenham (UK), in order to boost diesel engine output. The UK Department of Industry and Trade (DTI) has also backed Ford's investment plan with a grant of £4.5 million (€6.5 million).

Furthermore, the French-based automotive components multinational, Valeo, (with 70,200 employees worldwide) announced a reduction of 479 jobs. The company plans to close its plant in Ourense (Galicia, Spain), implementing measures such as early retirement, external relocations and indemnities; it will also restructure its unit in Bietigheim (Germany) in order to cut costs. Renault Trucks, which employs 593 workers in Spain, presented a plan that includes a reduction of 443 jobs, due to a plant closure based in Villaverde (Madrid); the plan also includes an investment package to open a new plant, which will employ 150 workers. In the UK, BMW will cut 400 of the 1,500 jobs, at its car body plant in Swindon, as a result of a drop in orders from MG Rover and Land Rover. These cuts follow 330 job losses from the plant earlier in 2004.

Conversely, the management of Austria's Magna Steyr – a company that is part of the Magna International Group, which employs around 10,000 people – announced plans to expand the company's production relationship with the Chrysler Group. Magna Steyr will now be in charge of manufacturing two Chrysler models for the European market. According to the Governor of the Austrian Land of Styria, this expansion will entail a job creation programme for around 650 workers, from June 2005 onwards. Another business expansion has been planned in Slovakia by Teves, a member of Continental Corporation. The low cost of labour was the decisive factor in the investment decision. Also, Bridgestone of Japan foresees an expansion of its business activities in eastern Europe. The company plans to erect a tyre factory in Żarów, in the Wałbrzych region of Poland, where it will employ approximately 300 people. Two further supply companies, Eaton Automotive Systems and Hutchinson, have revealed their plans for greenfield investment in Poland: both companies will build manufacturing plants in the special economic zone (SEZ) of Katowice nearby Bielsko-Biała. Eaton Automotive Systems, which is part of the Eaton Corporation, a global multi-sector conglomerate, foresees at least 375 new jobs for its new facility, but estimates that it will create an additional 1,000 jobs indirectly in the whole region. The French automotive parts manufacturer, Hutchinson, will build its fourth plant in Poland, and create at least 230 new jobs by the end of 2006. The company expects that employment will gradually rise to 500.

The Japanese automotive parts manufacturer, Calsonic Kansei, plans to transfer its human resources (HR) department and its European base, from the UK to France, a move that will result in the creation of 400 jobs. This decision came as a shock to the 300 employees working at the British site (for further details see company focus). Another 400 jobs are set to be generated through the business expansion of Visteon. Its management has decided to proceed with a 'greenfield' investment in Slovakia, in response to PSA Citroën-Peugeot and Hyundai/Kia's motor activities in that country. Its workforce will consist mainly of employees with higher technical education.

References

Association des Constructeurs Européens d'Automobile (ACEA), *European Union - Economic Report*, Brussels, ACEA, 2003; European Industrial Relations Observatory (EIRO), *Industrial relations in the automotive sector*, December 2003; EMCC, Trends and drivers of change in the European automotive industry: Mapping report, European Foundation for the Improvement of Living and Working Conditions, September 2004; EMCC, 'Distribution of vehicle assembly plants in European countries', *Interactive map*, September 2004; Martin, C. and Raes, T., *End of Life Vehicle Directive*, PricewaterhouseCoopers, September 2002.

> Company focus

This section presents data concerning the cases of two companies: Delphi and Calsonic Kansei. Delphi, a global first-tier supplier of components to the automotive industry, announced a major restructuring plan involving 8,500 job losses worldwide, while Calsonic Kansei, also an automotive supply company, announced that it would relocate its European headquarters from the UK to France and develop a research centre there.

>> *Spotlight on Delphi*

Delphi is a world leader in mobile electronics and transportation components, and in systems technology. The company specialises in the manufacture of components and accessories for motor vehicles; according to 2003 figures, it is the world's second largest supplier, by sales value, to the automotive industry. Delphi conducts its business operations through various subsidiaries and headquarters in Troy, Michigan (US), Paris (France), Tokyo (Japan) and Sao Paulo (Brazil). The company employs approximately 186,500 workers and operates 171 wholly manufacturing sites, 42 joint ventures, 53 customer centres and sales offices, and 34 technical centres, in 41 countries.

Delphi forecasts fourth-quarter revenue of $6.9 billion to $7 billion, approximately $200 million less than its prior guidance. For 2004, the company forecasts a net loss of $57 million to $77 million. Analysts were expecting a profit of almost $241 million. Looking ahead to 2005, Delphi forecasts revenue of $28.5 billion to $29 billion, and a net loss of $350 million on a GAAP (Generally Accepted Accounting Principles) basis.

Restructuring

In December 2004, Delphi issued a new restructuring plan, involving 8,500 redundancies worldwide – the equivalent of 4.5 % of its global labour force – 5,500 of which are in its plants outside of the US. Reasons given by management for the restructuring included, increasing labour costs and cost of raw materials, in addition to a downturn in sales to traditional customers, like Ford or General Motors (*El Pais*, 11 December 2004).

In Europe, this restructuring will involve job losses in both Spain and Portugal. In Spain, the company has seven plants, namely, in Puerto Real (Cádiz), San Fernando de Henares (Madrid), Pamplona (Navarra), Sant Vicens des Horts and Sant Cugat del Vallés (Barcelona), and Tarazona and Belchite (Zaragoza). Many years ago, the company closed its plant in Olvega (Soria), and is now discussing a restructuring plan for its plant in Puerto Real (Cádiz), affecting 270 of the 1,500 employees. The restructuring plan for the plant in Puerto Real follows an auditing report that recommended 850 redundancies. Subsequent negotiations with the regional authorities have reduced this figure to approximately 300 redundancies (www.lukor.com). No further decision has been taken yet, either by the regional authorities or by management. The plan for 300 redundancies had been raised prior to Delphi's last decision to shed 8,500 positions within the next number of years. Labour representatives now fear that the new plan will affect other production centres in Spain.

In Portugal, where it has been based since 1980, Delphi currently owns six sites, including Grundig in Braga, which was purchased in November 2003. Overall, the company employs nearly 5,000 people in its factories in Linhó, Castelo Branco, Guarda, Ponte of Sôr, Seixal and Braga. In November 2002, Delphi closed its factory in Carnaxide – where it manufactured automotive connection systems – a move that resulted in 465 redundancies. In December 2004, the company's management announced a decision to close the automotive connection systems division of the Linhó plant, by the end of 2005, which would result in approximately 1,000 redundancies. According to a source close to the company, Delphi was producing components for Peugeot in June 2004, after having completed some work for Mercedes in May of that year. Following the completion of these contracts, the remaining orders were transferred to factories in Poland and the Czech Republic; this move resulted from a decision at headquarters, after it identified that there was little prospect of new markets developing in the foreseeable future.

Since 1994, the year that Delphi set up its first plant in Poland, employing 250 people, the company has grown considerably. Today, Delphi Poland is the largest Delphi operation in central and eastern Europe, employing over 5,000 people in six manufacturing plants and technical centres in Krakow. Since it first launched operations in Poland, the company has invested over $345 million in the country, and now owns the biggest component manufacturer in the region. Today, Delphi Poland exports over 80% of total production, and this reached $540 million in 2003. Its customer base includes worldwide car manufacturers BMW, DaimlerChrysler (Mercedes), Fiat, Ford (Land Rover, Jaguar and Volvo), General Motors (Isuzu, Opel, Suzuki, Saab and Vauxhall), PSA Peugeot-Citroën, Renault, Toyota, and Volkswagen (Porsche). Since the company began promoting its brand on the retail market, Delphi Product & Service Solutions, the aftermarket division, has recorded a staggering 300% growth in the past three years.

Through acquisitions, for example, Zaklady Sprzetu Mechanicznego, Poland's largest manufacturer of car radiators and heaters and Mechatronics in Gdańsk, or investments in special economic zones, such as Delphi steering systems manufacturing plant in Tychy, Delphi has established a strong presence in central Europe, as well as entering new markets.

On 7 December 2004, Delphi announced plans to hire 200 engineers for the technical centre in Kraków, a research and development (R&D) centre employing 400 locally-educated engineers, technicians, administration and support personnel (*Rzeczpospolita*, 7 December 2004).

References

EMCC, *Trends and drivers of change in the automotive industry: Mapping report*, European Foundation for the Improvement of Living and Working Conditions, Dublin, 2004; Lopes R.D., 'Pais Antunes quer explicações da Delphi', *Jornal de Notícias*, 25 March 2004; Lopes R.D., 'Delphi despede mil', *Jornal de Notícias*, 22 March 2004; Lopes R.D., 'Ordem para despedir', *Jornal de Notícias*, 19 June 2004; 'Delphi Kraków zatrudni inżynierów', *Rzeczpospolita*, 7 December 2004; delphi.com; thestreet.com, 10 December 2004.

>> Spotlight on Calsonic Kansei

The Japanese group Calsonic Kansei is an automotive parts and accessories manufacturer and the main supplier of Nissan. The company has a strong presence in major automotive markets worldwide, comprising 42 subsidiaries in America, Europe, Asia and Oceania. The company was created following a merger between two Nissan's sub-companies in 2000 – Calsonic and Kansei – as a result of the Renault Nissan alliance. Calsonic used to specialise in thermal exchanges and air conditioning systems, while Kansei specialised in electronic and interior systems.

Today, the company's capabilities are much more diverse: areas of production include the design and manufacture of heater and air conditioning systems, engine cooling and exhaust systems, including catalytic converters for the automotive industry. The company also designs and manufactures cockpit and front-end modules.

In 2004, Calsonic Kansei employed 16,500 people. Its turnover for the previous year was estimated at €4.5 billion (620 billion yens), and it was ranked as the nineteenth car component company in the world.

In December 2004, Calsonic Kansei decided to relocate its headquarters and technological centre from Llanelli in the UK to the Île de France region in France. According to the company – which is one of Llanelli's biggest employers, employing a workforce of around 1,000 people – this move will only affect a small number of employees, who will also be offered the chance to transfer to France, and it will not impact on manufacturing jobs in the town.

In France, this announcement will result in the creation of 400 jobs in Île de France, within the next five years: this includes 300 new jobs (of which 200 engineers), between now and the end of 2006, at a research and development centre, and 100 new jobs at an equipment maintenance and development centre, expected for 2012.

According to CEO, Takashi Kitajima, the relocation to France is a purely strategic decision, so that the company will be located closer to its European clients, which currently include Audi, BMW, Peugeot, Land Rover and Volvo (*Les Echos*, 16 December 2004). The company also estimates that the European market still provides a strong growth potential for the automotive supply industry. At present, Nissan represents 70% of Calsonic Kansei's turnover, owning nearly 42% of its shares. The company's relocation to France aims to reduce its dependence on Nissan by 20%, by raising its business activity with Renault, while also diversifying its client base.

References

'Car plant to relocate HQ to Paris', *BBC News*, 16 December 2004; Calsoni Kansei website; 'L'équipementier japonais Calsonic Kansei choisit la France comme siège européen', *Les Echos*, 16 December 2004.

> Note on methodology

The European Restructuring Monitor is a tool that records industrial restructuring cases as reported in the press. All announcements involving the reduction or creation of at least 100 jobs, or affecting 10% of the workforce in sites employing 250 people or more, are taken into account. The cases are identified through a review of daily papers and the financial press in the former EU15 and in three of the 10 new Member States: the Czech Republic, Poland and Slovakia.

ERM enables the compilation of statistics, based on the information available in the database on each restructuring case. A comparison between countries and sectors is possible, by identifying those with the highest number of restructuring cases and examining the associated employment effects. In order to provide a more meaningful comparison of trends, statistical data are weighted, to take into account the size of the active labour force in the 18 EU Member States covered, and the number of people employed in the sectors covered by the ERM. Only those fact sheets in the ERM database, which refer to a specific country, are included in the statistical analysis. Fact sheets referring to European or worldwide restructuring activities are not considered, in order to avoid double counting.

The statistics provided in the present edition of the ERM *quarterly* may differ slightly from the statistics available on the ERM website. This is due to the fact that data on the website are updated whenever new information becomes available, in particular, regarding numbers of planned job reductions. Once the ERM *quarterly* has been uploaded, the information is not updated and hence does not reflect those adjustments.

The reference data for employment in EU Member States and industrial sectors is taken from Eurostat[5]. Since Eurostat does not provide data for all 26 sectors covered by the ERM, sectors had to be regrouped to match the sectors listed by Eurostat. The reference for sectoral data is employment figures for the sector, across all 18 EU Member States covered by the ERM.

Eurostat sectors	EMCC sectors
Agriculture	Agriculture and fishing
Mining and quarrying	Extractive industries
Manufacturing	Glass and cement; Electrical; Chemical; Food; beverage and tobacco; Textiles and leather; Motor; Pulp and paper, Metal and machinery
Electricity/gas/water supply	Energy
Construction	Construction and woodworking
Wholesale and retail/repairs	Commerce
Hotels and restaurants	Hotel, restaurant and catering
Transport and communications	Post and telecommunications; Transport and storage
Financial intermediation	Financial services
Real estate/business activities.	Information technology; Consultancy business services
Public administration	Public sector; Education
Other services	Publishing and media; Maintenance and cleaning; Health and social work; Hair and beauty care; Performing arts

If you would like more information on the European Restructuring Monitor, you can visit the website at www.erm.emcc.eurofound.eu.int or send a request to the e-mail address erm@eurofound.eu.int.

www.erm.emcc.eurofound.eu.int

[5] European Commission, *European social statistics – Labour force survey results 2002*, Luxembourg, Office for official Publications of the European Communities, 2003.