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Stefan Zagelmeyer *

# Brothers in Arms in the European Car Wars: Employment Pacts in the EU automobile industry **

*During the 1990s, company or plant-level collective agreements on employment and competitiveness were forged at most car producers in the European Union. In brief, these pacts aim at maintaining or creating jobs and at improving the competitiveness of the plant or company in inter- as well as intracompany competition. This paper first presents two approaches to analyse such employment pacts. It then introduces selected cases of company-level employment pacts in the European car industry. The main part of the paper analyses these employment pacts and discusses their implications for labour relations. The author concludes that these pacts may not just be seen as examples of concession bargaining, but rather as emerging forms of cooperative labour relations, which are about adjusting the governance of the employment relationship to the imperatives of joint competitive success.*

## Beschäftigungspakte in der EU-Automobilindustrie

*Im Laufe der 90er Jahre wurden bei den meisten Autoproduzenten in der Europäischen Union unternehmens- oder betriebsweite Kollektivvereinbarungen über Beschäftigung und Wettbewerbsfähigkeit abgeschlossen. Diese Pakte haben sowohl den Erhalt bzw. die Schaffung von Arbeitsplätzen als auch die Verbesserung der Wettbewerbsfähigkeit des Betriebs bzw. des Unternehmens sowohl im konzerninternen als auch im branchenweiten Wettbewerb zum Ziel. Der Artikel stellt erst zwei Ansätze zur Analyse solcher Beschäftigungspakte vor. Anschließend wird eine Auswahl solcher Bündnisse in der (west)europäischen Automobilindustrie beschrieben. Der Hauptteil des Artikels analysiert diese Pakte und diskutiert die Implikationen für die Arbeitsbeziehungen. Der Autor kommt zu dem Schluss, dass diese Pakte nicht nur als Beispiele von Konzessionsverhandlungen betrachtet werden sollten, sondern auch als Form kooperativer Arbeitsbeziehungen, welche die Anpassung der Regulierungsstrukturen der Arbeitsbeziehungen mit dem Ziel der Verbesserung der gemeinsamen Wettbewerbsfähigkeit zum Inhalt haben.*

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## 1. Introduction

During the 1990s, company or plant-level agreements on employment and competitiveness were forged at most car producers in the European Union (EU). In brief, these employment pacts, or „pacts for employment and competitiveness" (Sisson et al. 1999) aim at maintaining or creating jobs and at improving the competitiveness of the plant or company in inter- as well as intraconcern competition.

The legal form of such pacts varies from collective agreements to works agreements to informal agreements. What all pacts have in common is that they (1) are a form of joint regulation by management and collective representatives of employees, either trade unions or works councils, and (2) include clauses on the withdrawal of announced lay-offs, agreements to no compulsory redundancy, employment guarantees, the transformation of temporary into permanent jobs or additional employment.

In contrast to other studies which have focussed their attention almost exclusively on national-level tripartite or corporatist „social pacts" (see the contributions in Fajertag/Pochet 1997, Hassel 1998), this article follows the more recent path of research that concentrates on company-level pacts on employment and competitiveness (Sisson et al. 1999).

The article is organised as follows: First, stylised facts on and theoretical approaches to company-level employment pacts, namely the employment policy perspective and the regime competition perspective, are introduced. Second, it describes recent restructuring activities and employment pacts at a selected number of plants in different EU countries. The third part analyses these pacts and discusses their implications for labour relations.

The car industry has been chosen for a number of reasons: First, since the 1980s the industry is in a process of continuous restructuring. Second, the industry consists mainly of multinational companies (MNCs) and is subject to international regime competition. Third, the agreements in the car industry in a sense represent the most important characteristics of many other agreements on employment in other branches.

This article is based on a comprehensive analysis of the EIROnline-database (http://www.eiro.eurofound.ie) with regard to plant and company level agreements on employment and competitiveness (Zagelmeyer 2000) as well as case studies conducted for a European Foundation project on pacts on employment and competitiveness (Schulten et al. 1999). Due to the limitations of the data, the methodology applied in this article is inductive and exploratory, rather than deductive.

## 2. Bargaining on employment

The rising level of unemployment in the European union has continually been accompanied by a controversial discussion on the role of collective bargaining – or more generally: joint regulation by management and labour – in contributing to and alleviating unemployment. In general, the social partners themselves have rather different views on how collective bargaining could help to improve the employment situation. On the one hand, employers and their associations focus mainly on supply-

side policies, labour market flexibility and labour costs, which they consider too high. Therefore, a moderate wage policy and deregulation of the labour market are regarded as the best ways to create new jobs. On the other hand, the trade unions focus very much on macroeconomic demand management and the redistribution of the available supply of work. They advocate various forms of working time reduction as a way ~~to~~ better to distribute existing work and, therefore, to bring about opportunities for new jobs.

Governments and social partners in most EU member states have been searching for policies to remedy the situation. All EU countries have witnessed the occurrence of explicit bargaining activities and resulting agreements on employment and competitiveness. ”Pact” is the current ”buzzword” in employment initiatives. In order to analyse the emergence, content, and impact of employment pacts at various levels, one may choose between two, not necessarily mutually exclusive, analytical perspectives, namely the employment policy perspective and the regime competition perspective. In the following, recent developments concerning the levels and contents of employment pacts in the European Union will be summarised. Then, the two analytical perspectives will be briefly introduced.

### *2.1 Employment pacts: Levels and contents*

Since the early 1990s, all EU countries have witnessed the occurrence of explicit bargaining activities and the resulting agreements on employment and competitiveness. These have ranged from national, sectoral or regional tripartite or bipartite „employment alliances” or „pacts” to company-specific agreements between employers and works councils or trade unions. There is a myriad of different employment pacts at different levels (for details see Zagelmeyer 2000). Due to the large number and complexity of such agreements, it is not possible to give a comprehensive account of such agreements here. The following section outlines objectives and contents of pacts at different bargaining levels.

Activities at the national and regional levels mostly contain a wide range of economic, industrial, social, and labour market policy measures with the explicit aim of creating new employment. Concerning the labour market, measures aim at (1) reducing labour costs, (2) increasing the flexibility of the labour market, and (3) improving the employability of the workforce. In contrast to the Keynesian incomes policy agreements of the post-war period, which mainly aimed at controlling inflation, the „new form” of concertation aims at improving labour market performance by applying supply-side-oriented measures.

At the sectoral level, in a number of countries, the social partners have included so-called „opening clauses” or „hardship clauses” in collective agreements, which usually allow the company,- or plant level, actors to agree on temporary deviations from the standards of pay and conditions agreed in industry-level bargaining in exchange for temporary job guarantees. Other agreements include „entrance wages” for new hires and special target groups, such as long-term unemployed people. Further-

more, agreements on partial or early retirement were concluded in a number of EU countries.

Also at the company and the plant level, bargaining on employment has been taking place increasingly in almost all EU countries between management and either trade unions or works councils. In most cases these negotiations aim to avert redundancies or guarantee the current level of employment in situations where the company is restructuring, investment decisions on production locations are being made, or the demand for the company's products is falling. As regards employment, these agreements may include the withdrawal of announced lay-offs or redundancies, no-redundancy clauses, employment guarantees, additional employment, and the transformation from temporary to permanent jobs. The general pattern was that management would announce the need for restructuring, cost reducing or productivity enhancing activities. Then employee representatives would react, albeit in different ways, to the demands of management. In some cases, company-level activities were the response to acute crisis situations in which companies were at the edge of bankruptcy. In the vast majority of cases, management and the workforce representatives negotiated employment and substantive issues together in packages that included a kind of trade-off of job security for concessions on the employees' side. Such concessions were mainly related to working time and compensation and included working time flexibility, working time reduction with or without partial or full compensation, overtime, wage freezes and reductions, changes in calculation bases for wage increases, reduction in bonuses and „pay above contract wages", pay-for-performance schemes, and two-tier wage systems. In addition, some agreements also included investment commitments by management as well as additional information and participation rights for employees. Methods to preserve employment have varied from company to company, and, in most cases, the aims of the agreements have been achieved. There have also been a few cases of company agreements that included clauses on job creation – notably in France, Germany, Italy, and Spain. In these very few cases, employee representatives took the initiative to reduce the workload and overtime in exchange for the hiring of additional employees.

### *2.2 The employment policy perspective*

The employment policy perspective regards these pacts as attempts by the labour relations actors to maintain and create employment. It analyses the extent to which the contemporary employment pacts represent a means to help alleviate the current European unemployment crisis, i.e. whether or not and under what circumstances corporatist tripartite arrangements or bipartite activities between the social partners at various levels within a multilevel polity have positive employment effects (for details see Schnabel/Zagelmeyer 2000).

### *2.3 The regime competition perspective*

The regime competition perspective focuses on the ways in which systems of national labour relations are being transformed by the impact of economic and institu-

tional internationalisation (Streeck 1998). Specifically, it analyses the adjustment processes of labour relations institutions (e.g. collective bargaining) initiated by actors (i.e. management, trade unions, or works councils) in the increasing institutional or „regime" competition that results from growing international economic integration.

This approach explicitly addresses the research issue concerning the extent to which the employment relationship will continue to be regulated primarily within national systems of governance., ~~which~~ These are embedded *horizontally* in international market relations that lead to various sorts of regime competition and *vertically* in institutional relations with supranational political actors and administrative agencies that claim to „coordinate" them. Also, this approach examines whether both types of embeddedness and the associated pressures for institutional adjustment will result in the convergence of systems.

An especially interesting issue in this context is the role of multinational companies in regime competition, since they are often in a position to make investment and divestment decisions that exploit the different properties of national regimes of industrial relations, meaning it is relatively easy for them to go „regime shopping", to shift production sites to different locations. For a long time, MNCs have been recognised as key influences on collective bargaining in Europe, especially in setting trends in management approaches to collective bargaining and pay systems. Deepening European economic integration has encouraged restructuring within MNCs. With regard to national industrial relations systems, these developments associated with the restructuring of MNCs have profound implications for national systems of collective bargaining throughout Europe. It is argued that these developments are in effect encouraging decentralisation of collective bargaining to the single-employer level and challenging established structures of multi-employer collective bargaining. At the same time, however, there is also pressure to establish collective bargaining at the European level (Marginson/Schulten 1999, Marginson/Sisson 1996).

Following Marginson/Sisson (1996), there are several reasons that may account for management's aim to decentralise collective bargaining in MNCs. To begin with, international competition puts pressure on management not to concede general improvements in pay and conditions that would increase costs. Simultaneously, national-level multi-employer collective bargaining no longer provides a basis for excluding labour costs as a competitive factor. Also, the development of organisation-based employment systems allows management to develop working arrangements that are tailored to the company's needs. Multi-employer agreements provide only a framework within which further negotiation on changes can take place at lower levels, which among others serve the purpose of legitimating changes amongst its own workforce. Furthermore, systems of performance control adopted by corporate management not only compare measures of financial and market performance, but also of labour performance. Together with a shift of responsibility and accountability for labour as well as other costs to the business units, information from inter-plant comparisons may be used to pressure business unit management and to extract concessions in employment and working practices from local workforces as the price for fu-

ture investment. This mechanism to neutralise the workplace may make multi-employer collective bargaining arrangements superfluous. Finally, management may be more confident of its ability to reach agreements with its employees at the local level that contribute to the plant's competitive advantage.

## 3. Restructuring and employment pacts in the western European car industry

After providing background information on the western European car industry, this chapter presents selected examples of company- and plant level agreements on employment.

### *3.1 The European car industry: The European car wars*

Concentration in the car industry is rather high in the European Union, as it is worldwide. In 1997, the production of the six largest European concerns, namely Volkswagen, PSA Peugeot Citroën, Renault, Fiat, BMW/Rover and Daimler-Benz, plus that of Ford and the subsidiaries of General Motors (Vauxhall, Opel) amounted to 90 percent of the total car production in the EU. Data from the European car producer association ACEA (Association des Constructeurs Européens d'Automobiles) show that car producers in the EU suffered when production dropped dramatically and sales declined in 1991 and 1993, in the latter case by two-digit rates. Again in 1996, production decreased. Especially in association with the 1993 crisis, a number of automobile manufacturers were hit by remarkable losses. Employment in the EU automotive industry decreased from 2 million in 1990 to 1.7 million in 1994. Since then, employment has increased, reaching almost 1.9 million in 1997.

Currently, the car industry in the EU faces a number of challenges. First, there is the problem of overcapacity. According to estimates, only 70-75 percent of production capacity is currently being used (Wirtschaftswoche, 19 June 1997, quoted after Hancké 2000). Second, as a globalised industry in the sense that production of the multinational companies is planned on a world scale, the car industry is to a large extent exposed to the effects of global competition. Western European car producers as well as individual plants are facing ever-increasing competition from Japanese and Korean manufacturers locating in Europe, as well as from their own low-cost plants that have been set up since the 1980s in Europe (first in Portugal and Spain, later in eastern Europe) and elsewhere in the world. Also, more job cuts are as a consequence of the expiration of voluntary quotas that were limiting Japanese exports to Europe until 2000. Analysts argue that European carmakers need to become more cost-efficient while producing models faster. Third, another trend associated with the internationalisation of the industry exerts pressure at the local level. Multinational car companies increasingly conduct cross-border quality, productivity, and performance comparisons between their different production locations and allocate investment (and thus employment) to those plants in the group that meet certain required standards or that win intracompany competition for production and investment. Those not meeting the standards face considerable difficulty in attracting investment within the concern, which may finally endanger the existence of the respective production loca-

tion. Marginson/Schulten (1999) report that BMW/Rover, Ford, General Motors, Peugeot, Renault and Volkswagen use such performance comparisons regularly. Fourth, the diffusion of lean production across car plants in the European Union puts additional pressure on employment relations to become more flexible (Kochan/ Lansbury 1997; Kochan et al. 1997). In the media, the inter- and intracompany competition within and across countries in Europe is often referred to as the „European car wars".

All this has serious implications for the workforce. Already for the late 1980s and early 1990s, Mueller/Purcell (1992) report that, in the context of the internationalisation and cross-border integration of European car manufacturing, manufacturers with international and integrated operations have increasingly used threats – namely to withhold investment – to achieve their aims. This puts pressure on local management to meet certain standards in internal benchmarking procedures or win intracompany competition in order to get investment allocated from the headquarters. In turn, this pressures the local bargaining parties in collective bargaining. In the second half of the 1980s, this led to changes of working practices by subsequent agreements at several European General Motor subsidiaries (Mueller/Purcell 1992).

The severe crisis of 1993 forced most large car producers to react immediately. Many companies applied measures such as working time reduction and flexibilization, wage freezes, production restructuring, the development of new models, and the introduction of Total Quality Management. Machine running time and working time allocation were linked more closely to product demand. Most companies introduced flexible working time arrangements and group work. In the following, selected examples of company-level restructuring activities will be given. The fact that the following synopsis only covers car companies and subsidiaries of US and EU multinationals shall not imply that such pacts would not exist at European transplants of Japanese car manufacturers or at eastern European car producers. Industrial relations in eastern Europe is covered neither by the EIRO nor by the European Foundation research project, both of which were the source of information for this article. As regards the Japanese transplants, there are entries in the EIROnline database, but their contents does not relate to the topics discussed in this article.

### *3.2 Fiat*

*Italy*. In 1993, the Fiat Auto group – in agreement with the sectoral trade unions – started a restructuring programme that involved a large-scale „outplacement" of excess Fiat Auto workers to other companies. By 1997 a total of 9,000 workers had either been redeployed within the group or „outplaced" to other companies outside the group.

In 1994, a company-level collective agreement at Fiat Arese (former Alfa-Romeo) included a combination of provisions for early retirements, job security, and outplacement, and aimed to reduce staff from 9,000 workers to 4,000 by June 1998. The outplacement was intended to take place through the sale of the property aban-

doned by Fiat: companies were given the possibility to acquire premises under very advantageous conditions if they committed themselves to hire workers dismissed by Fiat, with the number hired proportional to the area they bought (Pedersini and Trentini 1997).

In April 1999, the metal trade unions and the management of Fiat Auto forged a company-level agreement on the transfer of more than 2,000 workers from the Mirafiori and Rivalta plants to Comau Service, a maintenance company controlled by Fiat. In return, Fiat would hire 350 workers in its bodywork operation at Mirafiori and at the Melfi plant (Potenza) on the basis of work or training contracts with duration of 24 months, plus 50 temporary agency workers at the Melfi plant. This was the first time that Fiat had used, in agreement with the trade unions, a significant number of temporary agency workers. The new recruitment met the demands of the Fiat's Rsu employee representative bodies, which had arisen as the result of a personnel shortage and continuing overtime hours of bodywork employees (EIROnline IT9904109N).

### *3.3 Ford*

*Belgium.* In September 1998, Ford announced the reorganisation of its plant in Genk, which implied job cuts of about 25 percent of the workforce within the next two years. Management targeted a 7 percent reduction of fixed costs in exchange for production guarantees. National management and unions started negotiations on job losses and work reorganisation immediately. As a result, the top-level management of the multinational company was willing to invest in „humane forms of restructuring", promising to invest BEF 5 billion in an industrial park that would attract supplier companies. New employment could thus potentially compensate for the losses at Ford Genk itself. Work reorganisation and redistribution were additional methods under discussion (EIROnline BE9809244N).

*Germany.* Ford Germany has a long tradition of works agreements to secure production locations (*Standortsicherungsvereinbarungen*). In 1985, an national company level agreement on restructuring, which included the reduction of payment above collectively agreed wage levels, was concluded in exchange for the company's commitment to retain the product development centre in Cologne. The next such agreement on investment in exchange for personnel cost reductions was forged in 1994. In late 1996, the headquarter of the Ford Motor Company demanded cost reduction in Europe. In April 1997, the management board at Ford Germany and the company works council signed a works agreement to secure investment. In the agreement, Ford management promised new investments at the five German Ford plants in the next few years. In return, the company works council agreed to a reduction of „payments above contract wages", a reduction of the previously high bonuses for late and night work to the collectively agreed rate, and a working time corridor of 70 hours including Saturday work. Ford Germany announced that the new works agreement will bring cost savings amounting to USD 120 Million per year. The

chairperson of the company works council declared that the new agreement would secure jobs at Ford Germany for the next 10 to 15 years (EIROnline DE9704209N).

*Spain.* In 1998, for the first time in the factory's 22-year history, a new works agreement had not been signed at Ford's Almussafes plant in Valencia by October. Management had required the unconditional acceptance of an obligatory increase in working hours for all workers by working in collective breaks and on an additional 10 Saturdays per year in order to increase production. These demands were rejected by the workers' committee, which stated that the increase in production should be covered by job creation and employment stabilisation. The union's demands were shorter working hours (a 35-hour week), the conversion of temporary contracts into permanent contracts, and the early retirement of workers with compulsory replacement, in addition to pay increases and promotion for certain groups of workers. Late in 1998, the company threatened to dismiss 1,500 workers in the period up until 2003, not to renew temporary contracts, and to transfer the daily production of the 310 Focus models to the Ford plant in Saarlouis, Germany. The unions argued that wage levels at the German plant were higher, which would result in an additional cost of USD 120 per vehicle, and that more workers would have to be recruited.

After industrial disputes, inter-union disagreements and rivalries, mediation by the government, as well as threats by management of dismissals, plant closure, and transfer of production to plants in other countries, the parties reached a draft agreement. The three-year agreement contained moderate pay increases, the backdating of the production bonus, the introduction of the 36.5 -hour working week in 2001, and the integration of temporary workers into the core workforce as the situation returns to normal and production increases. The agreement also specifies that voluntary early retirement will cover all workers over the age of 58. Furthermore, the apprentices' school will take on 50 children of employees every year. In exchange, the unions accepted the scheduling of six working Saturdays over the rest of the year, in addition to six working Sundays on a voluntary basis. As a result of the dispute, the production of Focus units was transferred to the Saarlouis plant in Germany (EIROnline ES9810287N; EIROnline ES9811288F).

*United Kingdom.* In January 1997, the Ford Motor Company announced that it was cutting 1,300 jobs at its Halewood plant (UK). This was after some speculation that Ford wanted to install new and more efficient working practices and that it would threaten to build a new-generation Escort model elsewhere or close the plant altogether if trade unions did not agree to concessions. The company then confirmed that production of the new model would not include Halewood but would be located instead at Saarlouis (Germany) and Valencia (Spain). Furthermore Halewood would also immediately reduce its shift pattern to one shift per day. Management stated that redundancies would be imminent if support for the Multi-Activity Vehicle project (MAV) by government and unions was not forthcoming. In April 1997, a GBP 15 million package of government support was announced for the Halewood plant, conditional upon Halewood achieving significant productivity improvements. A few days earlier, unions agreed to halt a ballot for industrial action, pending further talks,

after the company gave assurances of continued production at Halewood and also reduced the job losses to 980 voluntary redundancies, on the condition that the unions would agree to further productivity-enhancing measures. In January 1998, Ford committed itself to invest at Halewood (EIROnline UK9702101F, EIROnline UK9704124N).

*Jaguar (UK).* In 1989 Jaguar was taken over by Ford, which provided the investment to make changes in the organisation of work and to offer large pay increases in order to facilitate acceptance of the change. However, the take-over also raised the threat of sourcing production elsewhere in the Ford group. After both redundancies and various quality improvement initiatives, a job security agreement (JSA) was concluded in 1994 at the Jaguar car company. The JSA introduced wide-ranging flexibility in terms of working time and the workforce by reducing demarcations between jobs, by increasing craft multiskilling and the use of temporary workers, and by expanding teamwork (EIROnline UK9810153F).

In Table 1 a selection of the employment-oriented agreements at the European subsidiaries of the Ford Motor Company is summarised according to the three categories background, contents and consequences of the agreements.

### *3.4 General Motors*

*Belgium.* In October 1997, following the decision by the headquarters in Zurich to cut production costs and production capacity, Opel Belgium announced a new reduction of the workforce at its plant in Antwerp by up to 25 percent. The reduction in capacity was to be carried out partly through ending production of the Vectra model in Antwerp, which would then be produced only in Rüsselsheim (Germany) and Luton (UK). For Opel Antwerp, which had suffered from poor profits, this meant the second large-scale reorganisation since 1992, when labour cutbacks had been implemented mainly through a system of early retirement.

The 1997 draft collective agreement contained the following: a job security clause valid until 2002; a corresponding investment program as a „guarantee plan"; limited wage increases and a wage-indexation guarantee; an early retirement scheme from the age of 52 (which was to be supported by the Minister of Employment) and greater flexibility in the deployment of employees, with greater dependence on demand; the abolition of the annual holiday closure; and restrictions on outsourcing. The core of the draft agreement included two proposals for a new form of work organisation, and workers could choose between either a three-shift or two-shift system in a referendum. For the employees, the three-shift system involved one additional working hour per week for the same wage and 1,600 job losses. This was the proposal favoured by the trade unions. The other proposal involved a two-shift system within a four-day week, involving a cut in wages between 10 percent and 20 percent for employees, but only 993 job losses. In the referendum, with a high turnout of 90 percent of all staff, 59.9 percent of workers and 62 percent of the management staff accepted the draft agreement. Approximately 60 percent of employees chose the

three-shift system and thus the maximum retention of current wages (EIROnline BE9710222N; EIROnline BE9803229F).

Table 1: Bargaining on employment at the Ford Motor Company

| | Background | Agreement (type and contents) | Consequences |
|---|---|---|---|
| Jaguar West Midlands (UK) 1994 | • Takeover by Ford – investments and changes in work practices, danger of relocation of production to other plants within the Ford company | • Company level collective agreement<br>• Labour flexibility: abolition of job demarcations, introduction of multi-skilling and team work, increase in temporary employment<br>• Working time flexibility | • Job security |
| Ford Halewood (UK) 1996-1998 | • 1996: Management demands new working practices ⇒ otherwise: production of the new Escort model in Saarlouis (Ger) and Valencia (Sp); 1/1997: no agreement ⇒ Ford announces: 1300 redundancies, one-shift production, Escort to be produced in Saarlouis and Valencia; 4/1997: British government promises subsidies | • Company-level collective agreement<br>• Productivity enhancing measures | • Reduction of redundancies to 980<br>• Announced strikes cancelled<br>• January 1998: Ford promises to invest more than 400 million pounds; UK Government adds 40-50 million pounds |
| Ford Germany 1997 | • Late 1996: Ford demands cost reductions in Europe | • Company level works agreement<br>• Reduction in „payments above the contract wage" for 1997 and 1998<br>• Working time corridor of 70 hours<br>• Reduction of bonus for late and night shifts | • Investment in production location in Cologne, Düren, Berlin, Wülfrath and Saarlouis; cost savings of 120 million US dollars |
| Genk (B) 1998 | • Management target: 7 percent reduction of fixed costs in exchange for maintenance of production ⇒ Announcement of up to 3000 job reductions by 1999 | • Negotiations on the number of job losses, measures to prevent „uncushioned redundancies", work reorganisation and redistribution | • Company commitment to invest in „humane forms of restructuring". Ford promised to invest 5 billion Belgian francs in an industry park that would attract supplier companies |
| Almusafes (Sp) 1998 | • Management demands production increase ⇒ industrial disputes, inter-union rivalries, government mediation, threats of | • Company level works agreement<br>• Moderate wage increases until 2000<br>• The production bonus was | • No redundancies<br>• Transformation of temporary into permanent contracts<br>• Production of Focus units |

| | | | |
|---|---|---|---|
| | dismissals, plant closure and transfer of production to plants in other countries | backdated<br>• Extension of Saturday work<br>• Reduction of work week in 2001<br>• Early retirement | transferred to Saarlouis (Germany) |

*Germany.* On 18 November 1993, a pact on employment and competitiveness was concluded at Adam Opel AG, a subsidiary company of the General Motors Corporation (GM). The four-year company works agreement on „safeguarding production sites" (Site Pact 1) signed by company works council, the works councils of western German production sites and national management contained various provisions to reduce labour costs by employee concessions, i.e. a linkage between collectively agreed wage increases with cuts in the „Opel wages and salaries" above the collectively agreed rate in order to reduce the wage drift between branch-level and company payments, as well as provisions for joint initiatives to improve the organisation of work and production.

Negotiations for a new pact started in March 1997. During the negotiations, Opel management announced that further job guarantees could be given only in exchange for more substantial cuts in labour costs and a further reduction of the current wage drift. In January 1998, after the chair of GM Europe had announced workforce reductions with a possible loss of 9,000-14,000 jobs in Germany alone, German Opel management and the company works council were ready to sign a second site pact, which contained management promises of new investments and job security, on the one hand, and measures to cut labour costs, on the other. The new „Site Pact 2 for the safeguarding of employment and investment" is valid for the western German Opel production sites. The agreement is subdivided into eleven parts and includes the following: the linkage of the payment of the company's additional Christmas bonus to the rate of absenteeism; negotiations on partial and early retirement as well as the company pension scheme; the taking on of new vocational trainees; working time flexibility; and a reduction of overtime bonus. In exchange, management gives concrete promises for new investments and personnel planning at the different Opel plants. There will be no redundancies for economic reasons until the end of 2002, 12 months longer than the duration of the works agreement, or, should the new platform production start later than 31 December 2002, until the start of production on the new platform. However, management has also announced that the total Opel workforce will be reduced by up to 4,000 employees by the year 2001 (Zagelmeyer forthcoming). In the winter of 1999, discussions on a Site Pact 3 started, with the works council offering to introduce entrance wages for new hires at 30 percent less than the standard rates (Frankfurter Neue Presse, 7 Dec. 1999).

*Vauxhall (UK).* In April 1998, workers at the Luton and Ellesmere Port plants of motor manufacturer Vauxhall, which is part of the General Motors group, voted to accept a three-year company level collective agreement that provided for a 3.5 percent wage increase in 1998, a 3 percent increase in 1999 and a rise in line with inflation in 2000. If the exchange rate of the pound has fallen below DEM 2.70 at the end

of these three years, workers will enjoy an extra 0.5 percent rise and productivity-enhancing changes. Vauxhall, which now says that its exports are suffering from the current strong pound, had warned that the future of its operations in Britain depended on acceptance of the package. General Motors had promised to manufacture the new Vectra model in Luton and invest more than GBP 200 million in the plant, but only if the deal was accepted (EIROnline UK9805127N).

### *3.5 Mercedes Benz (DaimlerChrysler)*

*Germany.* In February 1997, a company-wide employment pact (*Beschäftigungspakt*) was signed at the automobile manufacturer Mercedes Benz. A whole package of instruments was compiled to boost competitiveness and save the jobs of the 134,000 employees working for Mercedes Benz in Germany. The first cornerstone of the package involved plant level works agreements on investment, product lines, working time flexibility, sick leave and the limitation of pay increases. The second cornerstone was represented by a company-wide works agreement between the management board and the company works council. According to this agreement, which is valid until 31 December 2000, pay increases are no longer calculated on the base of the actual effective wage level, but on the base of the (lower) wages agreed upon in collective agreements. Furthermore, extra payments for shiftwork and Saturday work have been abolished. In return, Mercedes Benz will avoid redundancies and offer jobs to all vocational trainees, around 2,000 each year. Furthermore, both sides will negotiate a new pay system (EIROnline DE9703105N).

*Spain.* In 1997, works agreements signed by national management the workers committee for Mercedes Benz's Spanish operations included the creation of a pool of working hours through which the company management will be able to add or subtract five days per worker a year, the conversion of temporary contracts into permanent ones, and the introduction of a retirement procedure. The intention of the agreement was to achieve greater flexibility in the use of labour and to avoid redundancies (EIROnline ES9711232N).

### *3.6 PSA Peugeot-Citroën*

*France.* In June 1997, management at PSA Peugeot-Citroën announced a new reorganisation and redundancy program for 1997-98, which included almost 3,000 job cuts to be achieved mainly by early retirements within the framework of the National Employment Fund program, by measures of worker redeployment, and by contract modifications from full-time to part-time work. The unions were opposed to this new program, which makes no provision for compensatory creation of jobs for young people. The CGT demanded joint negotiations on a sector-wide employment plan for the car industry between the government, unions and manufacturers and put forward three proposals: the lowering of the retirement age, a reduction in working time, and pay increases (EIROnline FR9706151N).

Almost two years later, in February 1999, five trade unions (except the CGT) and national management signed a draft collective company agreement on the reduction of working time. The deal is in response to the 1998 „Aubry Law" introducing the 35-hour work week and includes the following: the exclusion of hitherto included break time in calculating working hours, the flexibilization of working time (annualised working hours, „time savings accounts" of up to three years, work organisation in three-, four-, five- or six-day weeks according to local agreements); a FRF 500 bonus and two extra days off for manual workers; and choice for employees between a pay bonus or extra time off in compensation for Saturday work. In exchange, an employment plan was set up. Over a five-year period, management foresees the retirement of 12,500 employees and the recruitment of 8,700 new staff – 4,200 to compensate for early retirements, 3,000 created by the reduction of working time, and 1,500 linked to increased production. State funding for early retirement, which may affect the entire motor manufacturing industry, is conditional on the implementation of the 35-hour work week and the recruitment of young people (EIROnline FR9902157N).

### *3.7 Renault*

*Belgium*. On 27 February 1997, the chair and managing director of the French car manufacturer Renault, Louis Schweitzer, announced the planned closure by July 1997 of the group's sole Belgian plant in Vilvorde with a workforce of 3,100. He justified that decision, which was presented as irrevocable, by a continuing decline in the profitability of the group and also by the need for the redistribution of production among the remaining plants, which would also lead to the cutting of 2,800 jobs in France. The news of the closure of the Belgian subsidiary was associated with the French government's refusal to grant early retirement at 51 to 40,000 employees, a measure requested jointly by Renault and Peugeot-Citroën in exchange for taking on 15,000 young people. Renault had been „downsizing" for around 15 years and had thereby cut its workforce by 50 percent. Renault manufactured cars in around 30 factories in five European countries: France, Spain, Portugal, Belgium and Slovenia. The Belgian plant was set up in 1925 and modernised in the years before 1997; it accounted for only 2 percent of the group's workforce and manufactured the Clio and the Mégane, both of which were also assembled in other plants. Although there was an option that the factory in Slovenia would be closed, the Vilvorde plant was chosen because labour costs were 30 percent higher than at the French plants. Despite attempts to modernise, these costs had not been offset by an increase in productivity. Reactions by politicians, the public and trade unions were rather negative. Among others, the Belgian, Spanish, and French unions staged joint demonstrations and a one-hour strike on 7 March in all European Renault factories (EIROnline FR9703122F).

*France.* In April 1999, Renault and five trade unions (CFDT, CFTC, CFE-CGC, CGT-FO and CSl-Sir) signed a company level collective agreement which provides for reductions and flexibility of working time (e.g. working time accounts), the exclusion of previously included break time in calculating working hours, maintenance of

current pay levels, as well as for the early retirement of 10,500 employees. As regards employment, the agreement provides for 6,000 new employees over five years, but does not reverse the decline in the size of the workforce, which will continue to fall at an average annual rate of around 5 percent (EIROnline FR9904175N).

*Portugal.* In 1996, Renault had three facilities in Portugal: the assembly plant in Setúbal, the engine manufacturing plant in Cacia, and the administrative/sales facility in Lisbon. Since Renault had long been demonstrating a lack of interest in the Setúbal plant, the company signed an agreement with the Portuguese government that sold the plant to the state and thereby enabled 600 workers to keep their jobs. In 1997, the Cacia plant changed its manufacturing line and no longer produced engines. The changeover resulted in the temporary loss of 220 jobs. In an agreement signed by the Portuguese government and Renault, the company formally agreed in 1996 to reinstate the previous level of employment. The company claims that the Cacia plant, which switched to manufacturing gearboxes, is now competitive (EIROnline PT9711148F).

### *3.8 Rover*

*Rover (UK).* The motor manufacturer Rover has a relatively long tradition of job security agreements. The „New Deal" of 1992 represents the culmination of a series of productivity-enhancing initiatives such as the introduction of „total quality management" in the late 1980s. With the take-over of Rover by BMW in 1994, the latter began to link investment commitments between its plants – and ultimately the Rover employment guarantee – to employee concessions (EIROnline UK9810153F). In 1997, investment in the Longbridge production plant and hence its future were linked to collectively agreed upon changes in work practices that implemented more flexibility in order to increase productivity (EIROnline UK9704124N).

In December 1998, a collective agreement at Rover included working time reduction and flexibilization (annualised working time accounts, extension of Saturday work), the elimination of premium payments for overtime and Saturday work, and 2,500 job losses as the price for new investment, keeping open the plant and a no compulsory redundancy clause-. BMW management had maintained that a 30 percent productivity gap existed between the Longbridge plant and the German BMW plants. According to company estimates, the agreement will lead to cost savings of around GBP 150 million a year. Workforce reduction will be achieved through „natural wastage" and voluntary, rather than compulsory, redundancies (EIROnline UK9812168N).

In early 1999, BMW applied to the UK government for aid towards an overall GBP 1.7 billion investment at Longbridge for the production of a new medium-sized model. During the course of the negotiations between BMW and the UK's Department of Trade and Industry, BMW announced that Rover had suffered a heavy loss in 1998 and that BMW was exploring the possibility of building the projected new medium-sized car in Hungary as an alternative to investing in Longbridge. An agree-

ment between BMW and the UK government was finally reached on 31 March 1999, securing a total of 9,000 jobs at Rover's Longbridge plant. In June 1999, details of the deal were announced. The aid package included state subsidies amounting to GBP 152 million, which are linked to the achievement of productivity guarantees by the company. When the aid package was confirmed, BMW announced that it would be investing GBP 3.3 billion in its Rover subsidiary by 2005, subject to the approval of the subsidies by the EU commission (EIROnline UK9904100N, EIRONline UK9906112N).

After substantial losses in 1998 and 1999, BMW announced in March 2000 that it was to sell Land Rover to Ford and Rover to the venture-capitalists Alchemy Partners. BMW's plans were heavily criticised by the trade unions and the UK government, especially as regards the 1999 deal and considering the fact that government, unions and the company had accepted that break-even would not occur before 2002. In April 2000 it turned out that because of the costs of redundancy and the threat of legal action from trade unions and Rover management over possible breaches in employment legislation by BMW, Alchemy withdrew from the deal. According to an EIROnline report (EIROnline UK0005174F), all Rover Group employees received a letter in early April 2000 that by 14 April they would be told by management which of a new set of business units they were allocated to prior to the sale. The trade unions and Rover threatened a High Court injunction to prevent the breach of the 1998 flexibility agreement which also included a no-redundancy clause, arguing that if BMW transferred employees to Alchemy, they would be made compulsorily redundant. Also, the unions argued that BMW had not adhered to the statutory requirements to consult employee representatives over the redundancies and transfer of the business. As a result of the threat of legal action and the potential costs of redundancy payments above the statutory minimum, BMW announced that the transfers would not take effect as planned. On 28 April 2000, Alchemy announced its withdrawal from the negotiations with BMW. Instead the Phoenix consortium, backed by trade unions, employees, dealers and government support, bought Rover for a symbolic price of GBP 10 in May 2000. To make the sale possible, the unions and management had waived their legal claims. It was estimated that under the deal redundancies would be restricted to around 1,000 of the 9,000 employees (EIROnline UK0004164, EIROnline UK0005174F).

### *3.9 Volkswagen*

*Belgium.* At Volkswagen's Forest factory, a plant level collective agreement was concluded in September 1997 that aimed to preserve jobs and possibly create new ones. The agreement provided for a staggered reduction of weekly working hours with partial wage compensation, the replacement of collective annual holidays with plant closure for individual holidays, which will make it possible for the plant to run at maximum capacity, and an extension of Saturday work. This agreement meant that management could extend the period of machinery utilisation and so increase production without new investment. According to management statements, the flexibility,

productivity and cost-reduction aspects of the agreement could satisfy the demands of the group's world management in Wolfsburg (Germany) for productivity. Before the agreement, there had been 1,000 people too many at Forest. Management had the options of making the same number of cars with a reduced workforce, or of making more cars with the same number of people. Annual production was to rise from 200,000 to 240,000 units. Although the agreement contained no such formal commitment, the recruitment of 400 to 600 workers on supply or temporary-work contracts was likely. The deal guaranteed employment until 1999 and would save the 700 to 800 jobs under threat from the assembly of a new model in the plant. (EIROnline BE9709116N; EIROnline BE9808152F). In July 1998, a new collective agreement was concluded in order to meet the production quota set by central management in Wolfsburg. The agreement introduced regular shift work on the weekends in the bodywork and painting workshops in return for a fixed contract for 1,300 previously temporary employees (EIROnline BE9808241N).

*Germany.* In 1993, Volkswagen experienced a dramatic decline in automobile purchases, threatening to lead to mass redundancies. In December 1993, VW and the metal workers' trade union IG Metall struck a company level „Collective Agreement to Secure Production Locations and Employment" (*Tarifvertrag zur Sicherung der Standorte und der Beschäftigung der Arbeitnehmerinnen und Arbeitnehmer bei der Volkswagen AG*) that covered Volkswagen's production locations in western Germany. The most important provisions of the two-year agreement were a no-redundancy clause and the introduction of the four-day workweek of 28.8 weekly working hours instead of 36 hours. The corresponding initial reduction of monthly income was compensated by a whole package of measures, e.g. the increase of monthly wages, the redistribution of the annual bonus and holiday pay to the monthly wage, and additional VW contributions. This allowed the employees to maintain their previous monthly wage. In total, weekly working hours were reduced by 20 percent, the average gross income by 16 percent. The measures improved the cost situation of Volkswagen and avoided the dismissal of 30,000 employees. The agreement was renewed, with minor modifications, in 1995 and 1997. In January 1999, Volkswagen announced that production at its Wolfsburg production site would return to the „classic" three-shift model and thus put an end to the 150 different working time models that were associated with the 1994 shift model and resulted in a number of social problems. Volkswagen will profit from the three-shift system, since it extends production capacities and allows for flexible organisation of working time distributed over the week according to demand fluctuations. Furthermore, the company expects increases in productivity and quality (EIROnline DE9707221F; EIROnline DE9903102N).

*Audi (Germany).* In December 1997, national management and the company works council at the car producer Audi agreed to the continuation of the 1996 works agreement entitled „Audi for work and maintenance of the production location" (*Audi für Arbeit und Standortsicherung*) until 31 December 2001. This agreement includes a no-redundancies clause, the maintenance of the number of vocational trainees, the

hiring of all vocational trainees who successfully finish their apprenticeship, advanced training to enhance job security, and the further improvement of working time flexibility through new provisions affecting working time and shift schedules (EIROnline DE9801144F).

*SEAT (Spain).* In November 1998, a collective agreement was signed between the trade unions and the management of the SEAT car factory in Martorell, which involved increasing production and introducing more flexible working hours in exchange for employment stability and job creation. Management agreed to convert 600 temporary workers recruited two years ago into permanent workers, recruit 350 new workers, recruit another 100 temporary workers – students – on a part-time basis to cover weekends and holidays, and set up two commissions to analyse the feasibility of an early retirement plan and an occupational regrading plan. In return, the unions agreed to increase the holiday period by one month, from July to September, with the company paying ESP 6,000 more per day to workers who take their holidays outside the normal holiday period; to increase shifts on Saturdays; to work more days per year; not to compensate accumulated hours worked the previous year and continue to work 80 hours of overtime per worker; and to reduce by 15 percent the wages of new recruits classified as „specialists" in exchange for a reduction in the period of service necessary to enter a higher classification (from three to two years). The management of the SEAT Martorell factory wanted to propose the plant as the best location for the production of a new SEAT model. In order to obtain the approval of Volkswagen, SEAT's parent company, management claimed that it was „vital" to reach a pact with the trade unions to guarantee the necessary increase in production. Since the factory was working at full capacity, the solution proposed by the company was to increase the use of the plant by greater flexibility in working hours (EIROnline ES9811288N).

### *3.10 Volvo*

*Sweden.* In November 1998, Volvo top-level management announced that it intended to make 5,300 workers redundant worldwide by mid-1999, including 2,600 in Sweden and 1,100 in other European countries. Although no information was published on how the cutbacks would be implemented, management promised that they would be carried through „in a socially responsible and dignified manner and in full agreement with the trade unions". In early December 1998, Volvo Construction Equipment informed its employees at the excavator factory in Eslöv that the entire factory would be shut down and its production transferred to Konz (Germany). Some days later, Volvo Cars and Volvo Trucks in Gothenburg announced that 722 white-collar workers would be made redundant. On 14 December, 295 employees at Volvo Cars in Olofström were given notice of redundancy. Negotiations started in all these locations. The trade union doubted whether the management would proceed with all these cutbacks, referring to the large amount of overtime being worked in Volvo Cars and Volvo Trucks (EIROnline SE9812133N).

## 4. Employment pacts: Analysis and implications

The adaptation process of employment relations in the European car industry to increasing competition within and across the multinational companies, new approaches to organising production such as „lean production", and the crisis of the early 1990s, have led to the emergence and spreading of a certain form of joint regulation that focuses on maintaining employment and increasing competitiveness. Employee representatives, either in form of trade unions or workplace representational bodies, have thus become involved in the restructuring activities and, to a certain extent, strategic management at many car companies in the EU.

Such employment pacts and their broad distribution across the western European car industry may have far-reaching implications for national industrial relations systems and European industrial relations. On the basis of the descriptive information provided by the EIROnline database and the European Foundation research project, the following chapter will analyse and discuss the phenomenon of employment pacts.

### *4.1 Emergence and contents*

The initiative to restructure the companies, to reduce costs or enhance productivity comes from management, either (a) as reactions to acute crisis (such as breakdown in demand for the company's products, as in the case of the 1993 pact at Volkswagen), (b) in order to prepare for anticipated restructuring activities, or (c) in order to increase the competitiveness of single plants or the national establishments in the intra-~~concern~~ firm competition for investment. Although the very existence of agreements on employment, income security, or protection of employees against the adverse effects of rationalisation may be traced back to the 1960s, the extent to which such agreements appear at different plants within MNCs in the EU is relatively new.

Whether or not it actually comes to bargaining on employment seems to be largely dependent on two factors, namely the scope management permits and the power of workforce representatives to force management to negotiate. The scope for bargaining seems to have been zero in the cases of the Renault Vilvorde plant and Volvo. In contrast to the rather unfortunate announcement of the closure of the Renault plant and its conflictual consequences in which management refused to make any concessions to the employees, the management of Volvo promised to carry out the redundancies in a socially acceptable way, without any adversarial union reactions. This points to the argument that labour relations style and atmosphere do matter.

When it comes to bargaining on employment, the workforce representatives, either local unions or works councils, reacted to the proposals and demands of management. Even if not explicitly, in most cases management was using a carrot-and-stick strategy, offering investments only against concessions by the employee representatives or threatening to close the plant or move production to subsidiaries in other European countries. High levels of unemployment, the crisis of the early 1990s, the resulting reduction in personnel as well as the potential loss of competitiveness within the ~~concern~~ firm associated with plant closure or the denial of future invest-

ment by headquarters limited the scope of action of employee representatives at the company level substantially, as employment security – especially if one considers the generally poor labour market situation – became top priority of the workforce. To a large extent, this explains the concessions made by the trade unions and works councils.

The resulting agreements on employment include guarantees of employment and job security, in some cases even on investment and production locations by the employer. In exchange, unions or works councils agreed to make working time more flexible, reduce total labour costs, contribute to a reorganisation of work, and to support productivity increases and competitiveness. With regards to the bargaining issues, measures relating to working time (reduction and flexibility) and pay were most important in securing employment. A majority of the agreements included provisions to secure jobs, either directly or indirectly. Fewer agreements also included the hiring of new employees or the transformation of temporary jobs into permanent ones. In a small number of cases, workforce reductions were agreed upon, mostly within the context of social plans. Interestingly, a number of agreements include commitments by management to invest certain amounts of money in specific production locations, especially in the case of the German agreements where investment commitments are even legally binding.

In general, wide arrays of different employment-related instruments were used at different companies and in different countries, mostly as a result of different local conditions and different national industrial relations systems. The contents of the pacts seem to be heavily influenced by national social and labour legislation and by national labour market policy, both of which provide incentives to pursue certain paths of employment adjustment. Examples are France and Belgium, where public policy encourages agreements on working time reduction and reorganisation in exchange for financial support.

### *4.2 Employee representation and multi-level regulation*

By signing employment pacts, either local trade unions or workplace representational bodies have become involved in the restructuring of the European automobile companies. In many employment pacts, the works councillors acquired the function of co-management. For example, issues negotiated in the Opel Site Pact 2 in 1997 amounted to DEM 1.5 billion.

The pacts mean a challenge for the relationship between employee representative bodies at different levels. Most agreements were struck at company level, fewer at plant level. In cases where agreements on employment were concluded by works councils, the relationship and balance of power between the works councils and the trade union(s) may have been affected. During the negotiating process, the role of employers' associations and the national trade unions was rather limited. The employers' association was rarely involved. And the role of the national trade union(s) was in most cases

limited to technical and legal support. In the case of Opel (Germany)[1], intraorganisational bargaining took place on the management as well as the works council's side. When asked about the interest and preferences of the works council as compared to the national union, company management frequently replied that works councillors are on the payroll of the company and not of the trade union. And representatives of the local workforce answered that they would, of course, primarily act to further the interest of the local workforce and not follow blindly the orders of union functionaries.

Most German employment pacts also include a comprehensive package of agreed measures, which previously may have been regulated at more centralised bargaining. This implies a decentralisation of collective bargaining and the associated loss in importance of the national union. Also, some agreements have stipulations that make reference to specific provisions in sectoral or multisectoral agreements, but the intent of some of these such stipulations runs counter to that of the sectoral agreement to which they refer, thereby limiting the impact of multi-employer collective bargaining. Cases in point are clauses in company-level agreements that link wage increases included in the collective wage agreement at the sectoral level to reductions in „pay above contract wages" at the plant or company level. Since the 1980s, for example, Opel Germany and Ford Germany have reduced the wage gap between effective earnings and collectively agreed earnings (agreed in industry-level agreements) from on average far more than 30 percent to currently about 15 percent. It will be interesting to see what happens to industry-level bargaining when the wage gap closes further as a result of future employment pacts. Another argument emphasises that successful local level pacts may act as legitimisation for the employee representatives and thus for the articulation between actors at different levels.

### *4.3 The employment policy perspective*

Although the main aim of the employment pacts has been to preserve or create jobs as well as to increase competitiveness, the actual impact and success in terms of effects on employment cannot be thoroughly and conclusively determined on the basis of information obtained from the European Industrial Relations Observatory (EIRO). Only in a very few cases have agreements been subject to systematic and thorough evaluation procedures. This may be due either to the short time since the conclusion of some agreements, lack of sufficient research, or the signatories' lack of interest in either evaluating their agreements or publishing the respective information.

An overall picture emerges from the available information on how successful the agreements are at creating and protecting jobs. At the company level, company or works agreements on employment have included concrete, and in some cases even legally binding, provisions guaranteeing jobs for a certain period of time or even cre-

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1 Some of the following arguments are based on interviews Thorsten Schulten and I conducted with management and works councilors at Opel (Germany) for the "Bargaining on Employment and Competitiveness" project of the European Foundation for the Improvement of Living and Working Conditions, Dublin, Ireland.

ating a specific number of new jobs. However, with few exceptions, company level agreements have aimed at preserving jobs for the „insiders", thus representing a rather „defensive" employment policy measure. In many cases, company-level employment pacts seem to have been the output of joint crisis management. The employment-related aims of these company-level agreements were usually achieved, implying that these types of agreements are able to stabilise employment in the short run. Research by Hancké (2000) reaches similar conclusions.

One rather general line of argument concerning the possibilities for the social partners to create jobs by collective bargaining and the resulting collective agreements goes as follows. When in a market economy the parties involved in tripartite or bipartite agreements at national, regional, and sectoral levels conclude agreements or alliances on employment, there is no way ~~to~~ directly to bind individual employers to certain employment goals. At best, the social partners can establish a certain framework that might indirectly influence the employer's attitude towards creating new jobs or giving up plans for redundancies. However, if management and the representatives of the workforce negotiate over employment and substantive bargaining issues at the company level, it seems possible that – at least in the short run – the agreements on avoiding redundancies or creating jobs can be made to stick.

However, although company or plant level employment pacts may increase competitiveness and save jobs in the short run, they should not be considered as panacea. Reality is more difficult. What generally appears to be very problematic when evaluating the effects of actual employment pacts on (not only short-term) employment is the fact that employment levels are not determined only by a particular institutional arrangement or some singular economic imperative, but by a multiplicity of factors. This makes it rather difficult to evaluate the real impact of such pacts on employment and other company performance variables.

The limits of such pacts are highlighted by the Renault and Rover cases. The Renault Vilvorde case of 1997 shows that collective agreements on productivity and flexibility did not guarantee job security in the long run. The unions had accepted extensive compromises on those issues at the Renault plant; concessions that ultimately proved to be useless when in 1997 management announced it would close the plant (EIROnline FR9703122F).

The 1998 deal at Rover raised hopes among the workforce, management and the UK government concerning the future of the group, although all participating parties agreed that break-even was not to be expected before 2002. However, in addition to criticism in the (German) media and among (German) BMW employees about the continuing cross-subsidisation of Rover and the resulting pressure to rethink the UK 'adventure', shareholder impatience and concern about the increasing losses seems to have been the major reason for the steps taken by BMW. Nevertheless, as the negotiations with Alchemy and Phoenix show, the 1998 deal indirectly contributed to a likely reduction of potential job losses.

Also, in many cases, one cannot get rid of the impression that employers were using these agreements as a means of achieving personnel adjustment (in most cases reductions) not through mass redundancies, but in socially acceptable ways. The impact of agreements on employment above the company level, i.e. at the national, sectoral or regional level, is even more difficult to evaluate. In contrast to the huge body of theoretical literature and empirical research on the relationship between on national-level corporatism[2] and economic and social performance (Calmfors 1993; Teulings/Hartog 1998) as well as on social pacts (Traxler 1997), there are only few attempts to analyse theoretically and empirically the emergence and impact of company level pacts on employment and competitiveness (see Ackermann/Vollmer 1999; Sisson/Artilles 1999; Sisson et al. 1999; Walton et al. 1994).

### *4.4 The regime competition perspective*

The increasing institutional or „regime" competition that results from growing international economic integration is transforming labour relations in the car industry. Although company and plant level industrial relations are still regulated primarily within national systems of governance, international intra- and inter-firm ~~concern~~ competition within and across countries forces labour relations institutions (e.g. joint regulation) to adjust. The following paragraph will examine employment pacts from a regime competition perspective. Special attention is given to the role of regime competition in the conclusion of employment pacts, the role of the European Works Councils and the question of convergence of systems.

*The role of regime competition*

In the context of regime competition, pressures to adjust labour relations and the regulation of the employment relationship in the EU car industry derive mainly from two sources:

1 Cost competition within and across concerns and countries; and
2 Competition for investment among different production locations within concerns.

Within that contextual frame, MNCs with international and integrated operations are in a position to make investment and divestment decisions that exploit the different properties of national regimes of labour relations, i.e. they may go „regime shopping", and to shift production sites to different locations. MNCs have the option to use threats – namely to withhold investment – to put pressure on local management to meet certain standards, which in turn puts pressures on the bargaining parties in collective bargaining.

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[2] Corporatism may be defined as a system of interest representation in political systems in which interest groups (i.e. trade unions and employers' associations) are recognised by the state as primary and legitimate agents of interest aggregation, and assigned a special role in national-level tripartite policy-making (Schmitter 1974, Czada 1994).

A good example is the Ford Motor Company, which in 1996 demanded cost reductions at its European production locations. As a consequence, employment agreements were concluded at some national subsidiaries in the period 1996-1998 (see table 1). During the negotiations, management threatened to transfer production capacity to other countries in the cases of Ford Valencia and Ford Halewood. Top-level pressure led to similar developments at the Belgian, British, German and Spanish subsidiaries of General Motors (for details see Hancké 2000).

Also in the context of the 1998 agreement at Rover, BMW argued it might transfer production to Hungary if the British government was not forthcoming with financial support. In the case of SEAT, headquarters management at Volkswagen was exerting pressure on SEAT's management to reach a pact with the trade unions before it would guarantee an increase in production.

What is usually omitted and in some cases not even noticed in the analysis of employment pacts, restructuring processes and regime competition, is the role of the state. First, public policy and regulation towards plant closure may have an impact on „exit costs", i.e. the costs associated with reducing or closing down operations due to public regulation. An example would be relatively strict employment protection laws. In the UK, Belgium, and Portugal, low exit costs were made responsible for the closure of plants of multinational enterprises and the associated job losses. In the cases of Portuguese plants, government took over the plants from the car companies, thereby saving jobs. Second, more important seems to be the role of subsidies that gives rise to a phenomenon that may be labelled „subsidy shopping". In a number of cases, companies have been shifting production and thus jobs to countries were they were eligible for EU and/or national and/or regional subsidies. At least since the Renault case, where Renault closed down its Belgian Vilvorde plant and increased production in Spain with the assistance of the Spanish government, the EU Commission has become aware of this problem. It will be interesting to see how the European Commission rules on the Rover case.

In some cases, government programmes and incentives may have stimulated the conclusions of employment pacts. For example, in the PSA Peugeot-Citroën case, as in other French cases outside the car industry, the agreement was forged mainly within the framework of the National Employment Fund program, which provides incentives to reach agreements on early retirement schemes.

Thus, one may distinguish between three types of employment pacts. The first type is associated to regime competition. Examples may be Ford, GM and Rover. The second type is associated with acute crisis, e.g. in the case of Volkswagen. The third type is associated with government programmes, e.g. in the case of PSA Peugeot-Citroën.

*The role of the European Works Councils*

Another interesting point concerns the role of the European works councils (EWCs) in the conclusion of the employment pacts. EWCs were introduced as a

means for workforce representation to increase the control over international restructuring processes of multinational companies. Trade unionists thought that EWCs could and would contribute to some kind of transnational coordination of collective bargaining units, which, in the longer run, would lead to transnational bargaining units. The hope was that EWCs would contribute to agreements on minimum standards to be adopted by all plant delegations in their negotiations, in order to prevent competitive underbidding. However, qualitative research by Hancké (1999, 2000) on the role of the EWCs in the conclusion of these employment pacts reveals the following: First, local unionists use EWCs as an instrument for obtaining information and understanding labour relations in other countries in order to „further their local interests“ (Hancké 2000: 36) and employment at their home plant. Thus EWCs are not used as a means of cooperation and coordination of union action at different plants, but instead play a major part in the competitive game. Second, management had used EWCs as a forum to explain corporate restructuring processes and get support. Hancké (1999: 3) concludes that EWCs, „originally conceived as instruments to prevent regime competition and against social dumping, are, because of the way they are used by unions and management, increasingly becoming vehicles for international labour regime competition".

*Convergence or divergence?*

The issue whether industrial relations institutions in Europe are converging or diverging in terms of form and content has been extensively discussed in recent years (Hansen et al. 1997). Against the common background of increasing competition and the resulting pressures, naturally the question arises as to whether the employment pacts described above represent examples of convergence or divergence. The answer to this question is by no means trivial.

In general, the increasing international competition between different potential production locations creates pressure to achieve whatever type of production and work organisation is needed for market success, i.e. competitiveness. Although collective bargaining arrangements are very different across countries, the car industry in the EU displays similar trends of bargaining decentralisation down to the company or even plant level associated with the transfer of accountability and responsibility for labour costs and performance. Mueller and Purcell (1992) argue that differences between national patterns of negotiations in one multinational company may become very small indeed. Although a number of plants are subject to multi-employer collective agreements, it seems as if the scope of action has become quite similar with regard to personnel and labour relations issues at the local level.

However, there are also several forces at work that contribute to country- and company-specific patterns. In general, a wide array of different employment-related instruments were used in different countries. The contents of employment pacts seem to be heavily influenced by national industrial relations systems, national social and labour legislation, and by national labour market policy. Thus, action is clearly influenced by national institutions.

The emergence of company-specific patterns seems to depend largely on the centralisation of labour and personnel policies. For Volkswagen, the agreements at its subsidiary Seat and at the Belgian plant seem to have been the consequence of directives from the headquarters in Wolfsburg (Germany)., Ford and General Motors pursue relatively decentralised labour relations policies resulting in different local strategies as long as the plants reach certain performance standards and meet profit expectations. Volkswagen appears to pursue a rather inclusive approach, permitting comprehensive bargaining on working time, pay, employment and smoothing the adjustment process by compensating employees for concessions, i.e. increases in certain pay components. At Ford and GM, it appears that management bargains over employment, but is not prepared to provide further compensation for employee concessions. Table 1 summarises the background, contents, and consequences of different employment agreements at European subsidiaries of the Ford Motor Company. It becomes clear that, despite the differences in national labour relations institutions in which the management of the plants are embedded, there are striking similarities in terms of external pressures, the bargaining level involved, and the contents of the agreements, which aim to reduce costs and/or increase flexibility or productivity.

All in all, in the context of regime competition, the company level employment pacts hint at a convergence in terms of functional equivalents in the substance and divergence in terms of form of such agreements, with the latter being still determined by structurally different national institutions. This supports Marginson and Sisson's (1998) argument that industrial relations in Europe are characterised by increasing diversification within rather than between national systems and by a convergence that stems from pressure on management to adopt „best practice" solutions.

### *4.5 The character of employment pacts*

A question that so far has been left unanswered concerns the nature of the bargaining on employment and competitiveness activities, especially whether they represent just another form of concession bargaining – in other words: old wine in new bottles – or whether it embodies a distinctively new approach to joint regulation. Again, the answer is not trivial.

The employment agreements in the EU car industry of the 1990s have a lot in common with the „productivity coalitions" (Windolf 1989) of the 1980s or the new American forms of „social contracts" of the 1990s, which include „quid pro quos between labour and management as well as shared understandings about the rules of the 'game' " (Walton et al. 1994: xiii) in an era oriented around industrial competitiveness. These new „social contracts" aim at structuring positive employment relationships by jointly re-establishing cooperative labour-management relations and thus fostering change (Kochan 1999). Future research should further elaborate on whether these employment pacts represent cases of the „efficient bargaining model" of labour economics, where the parallel negotiation of wages and employment between unions and employer is believed to lead – under certain circumstances – to higher levels of employment than would collective bargaining over wages only (Booth 1995).

There are several lines of argument regarding the character of the company- and plant level employment pacts, especially concerning the issue whether or not they represent examples of concession bargaining. Linsenmayer (1986: 207) defines concession bargaining as „the practice of negotiating reduced wages and benefits or more flexible work rules to help endangered companies reduce their labour costs and increase their productivity and competitiveness" (1986: 207) in return for, among other things, job security. Mitchell (1994: 438f.) considers nominal wage freezes or wage cuts during the first year of duration of a collective agreement as indicator for concession bargaining, whereas Capelli (1983, 1985) defines *concession bargaining* as the explicit exchange of a moderate collective bargaining and wage policy for improved employment security.

According to these definitions, most employment pacts in the EU car industry may be considered the result of concession bargaining. Employers gave employment guarantees only in exchange for concessions by the trade unions. However, when the agreements in the EU car industry are compared to the US-type of „concession bargaining" (for details see: Linsenmayer 1986; Miller 1986; Mitchell 1994; Rosdücher/Stehle 1996), there seem to be striking differences. First, the developments in the EU car industry did not involve any union busting or avoidance strategies. One reason for this may have been the institutional embeddedness of trade unions within the western European industrial relations systems. Second, the negotiation of such pacts seemed on the whole less confrontational and conflictual.

Drawing on the framework of Walton and McKersie (1965), the European type of employment pacts may represent~~ed~~ examples of interest-based or integrative bargaining in which management and labour both gain when they reach agreements that increase productivity and organisational performance (win-win bargaining), rather than the more traditional distributive bargaining where gains for one side and losses for the other determined are solely by the ability to exert bargaining power. In contrast to the hard bargaining that occurred in the US car industry in the 1980s, the European employment pacts focus on problem-solving in terms of competitiveness of the company or the plant in a long-term relationship associated with rather high levels of mutual trust.

Following Walton et al.'s (1994) strategic negotiation approach, the company level employment pacts may be considered as representing examples of negotiated change, which includes the transformation of management-labour relations and revision of firm-level social contracts in the direction of cooperative labour relations. Following Walton et al. (1994: xiii), the „social contract includes broad quid pro quos between labor and management as well as a shared understanding about the 'rules of the game'". In order to be able to compete in times of increasing (global) competition, management has to adapt firm-level labour relations as well as the procedural and substantive terms and conditions of employment by revising its social contract with or without the union (s). Walton et al. (1994: 4f., 10f.) distinguish three types if institutional-level social contracts which provide guidance for interaction:

a) Containment/avoidance: management seeks a social contracts which contains, weakens or eliminates unions;
b) Arm's length accommodation: adversarial labour relations, often with extensive collective regulation of the employment relationship;
c) cooperation: management and labour build a partnership. Such an arrangement reinforces and extends the union's institutional strength and power while it legitimises management action. Nevertheless, such cooperative relations may limit the prerogative of management and create political and practical dilemmas for the union.

Most of the agreements described above may be categorised as concession bargaining. However, they may also be interpreted as examples of the new cooperative labour relations or partnerships in the Walton et al (1994) sense. In difficult times, cooperative relations (or partnerships) between management and workforce representatives provide for workforce concessions in exchange for information and participation rights, the commitment of management to reinvest the savings gained by the concessions and to minimise or avoid reductions in the workforce.

Further evidence for the emergence of new cooperative labour relations may be seen in the fact that, in a number of cases, pacts on employment and competitiveness have been concluded not only once, e.g. in a situation of crisis, but repeatedly in order to adapt to changing circumstances. It may well be that in the course of successful employment pacts, learning effects, attitudinal structuring, and the building of trust between the parties may lead to a transformation of labour relations.

A further striking contrast to the union's „emphasis of adversarial relations with management" (Craft, Abboushi and Labovitz 1985) in the American type of concession bargaining is that – as far as it has been reported – the majority of the employee representatives involved in negotiating the pacts in the European car industry see the pacts as an innovative way to achieve a comparative and competitive strategic advantage vis-à-vis their competitors, be it in relation to external competition with other car producers or with regard to internal competition with other production locations within the multinational company.~~,~~ ~~and thus~~ They see them therefore as a strategic device enabling them to secure investment and existing jobs as well as increase competitiveness in a changing economic environment. Also, as the results of the works council elections or election procedures for the local trade union bargaining agents show, the workforce seems to have generally accepted the change in the role and the involvement of employee representatives in the continuous restructuring and optimisation process of the plant. Nevertheless, there are small minority groups of employees and some trade union officials who fundamentally oppose this shift in direction and criticise the pacts as blackmail of the workforce's bargaining agents by management or as accommodatingly corporatist arrangements. These groups see the pacts as opening the doors to downward spirals in working conditions and competitive undercutting of agreements. They fear that, as competition between the plants within one multinational company continues, concessions at one plant can be surpassed by others, with each agreement putting pressure on the other plants, setting the agenda for

collective bargaining, and forcing other plants to adopt similar measures or to even surpass these. As in the case of MNCs, the potential for management to play units off against one another and to conclude „sweetheart deals“ is clearly there. This criticism is not without substance and should certainly not be omitted from any discussion on employment pacts. However, this argument reflects a (comparative) static view of labour relations, and – whether deliberately or not – fades out the dynamic dimension of competition in contemporary capitalism and the role of pacts on employment and competitiveness played therein. From this angle, the formation of management-labour coalitions at the company or plant level and the resulting institutional innovations called pacts on employment and competitiveness may be regarded as strategic labour relations tools in order to gain a comparative advantage in the dynamics of regime competition in the European car industry. To sum up: Management and labour have become brothers in arms in the European car wars.

## 5. Conclusion

In the 1990s, many European countries witnessed an increase in bargaining on employment at various levels. The ~~presented cases of~~ company level pacts on employment and competitiveness in the European car industry described in this article show that regime competition within the European Union (Streeck 1998) not only exists at the national level, affecting national labour relations systems at macro-level, but also exists at the micro level, especially with regards to competition between plants within multinational enterprises.

The internationalisation of markets and production has increased the pressure for organisational change and the need to modify long established labour practices. Plants within companies find themselves in continuous competition for investment, which is essential for their viability. In order to enhance the competitiveness of either geographically defined regimes or single enterprises or plants, the labour relations actors are making strategic choices, which in some cases may also lead to institutional reforms and change. Critics of the employment pacts regard them as just another form of adversarial concession bargaining. However, employment pacts at the company and plant level may also be regarded as emerging forms of cooperative and consensual labour relations – Streeck (1998) speaks of a new „peace formula” between capital and labour – which are about „adjusting the governance of the employment relationship to the imperatives of joint competitive success” (Streeck 1998: 15). Management and labour have become brothers in arms in regime competition.

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