



**Supplementary Memorandum of Evidence to  
the Trade & Industry Select Committee Inquiry into  
The reasons for success and failure in the UK Automotive Industry**

1. **Amicus is the UK's second largest trade union with 1.2 million members across the private and public sectors. Our members work in a range of industries including, manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and the NHS. Amicus membership across the manufacturing sector is in excess of 430,000 with over 66,000 employed in the automotive industry.**
2. This supplementary evidence follows on from the oral evidence presented to the Committee on 23<sup>rd</sup> May by Derek Simpson, Amicus General Secretary and Tim Parker, Amicus Regional Officer. This paper will address the issues being considered by the Committee building on our original written evidence submitted on 5<sup>th</sup> May 2006.
3. The evidence will deal with the questions which the Committee has highlighted. That is:
  - The principle reasons for the different records of success;
  - How companies arrive at investment and closure decisions in this country and abroad;
  - The role played by trade unions in the industry;
  - The appropriate response of Government to closure announcements or speculation;
  - And what the Government can do to help the workforce and the supply chain if plants close.
4. Before addressing these questions Amicus would wish to draw attention to the position of the automotive industry within the overall UK Manufacturing Sector. Vehicle development and assembly is at the cutting edge of modern manufacturing. The use of technology and computer aided equipment in the construction of vehicles is an essential part of the industry. The development and use of modern and innovative materials in the construction of vehicles and the need for the industry to address the emission issues and climate change agenda, places the industry at the forefront of tomorrow's manufacturing needs. To achieve all this, the industry has and continues to develop a high skilled workforce which requires the support of both the industry and government if UK manufacturing is to remain a core part of the UK economy. In the evidence that follows, Amicus will highlight the problems faced by an industry which is controlled from outside of the UK and which suffers from

the absence of a level playing field both in terms of employee protection and government support and corporate investment.

## 5. Principle reasons for the different records of success

5.1. It is recognised that the various vehicle building plants in the UK have performed with varying degrees of success in recent years. We would summarise the reasons for these disparities as reflecting investment practices and decisions relating to new models.

5.2. Nissan (Sunderland) is now the UK's biggest producer of cars. Last year the plant produced 315,297 vehicles. It is also considered to be a "model" plant in terms of productivity in Europe. Investment in the plant in the last 5 years has amounted to £586m but equally important has been the continued introduction of new models over that same period. At least 5 new models have been introduced to the plant in the last 4 years. Government aid has also been made available totalling £48.26m. During this period the workforce has reduced by 15%.

5.3. Looking across the investment figures in other competitor UK car plants for the same period illustrates the impact that this factor has had, along with the introduction of new models as shown in the chart below.

### UK Motor Vehicle Plants 2000 - 2004

Company	Capital Expenditure 2000 - 2004	Profit/Loss	New Models	Workforce
Peugeot Motor Company Plc (Ryton)	£107m	£292.4m	NO	-20%
Vauxhall Motors Ltd (Ellesmere Port)	£357.6m	(£637.4m)	YES**	-48% *
Nissan Motor Manufacturing (Sunderland)	£586m	£97.4m	YES	-15%

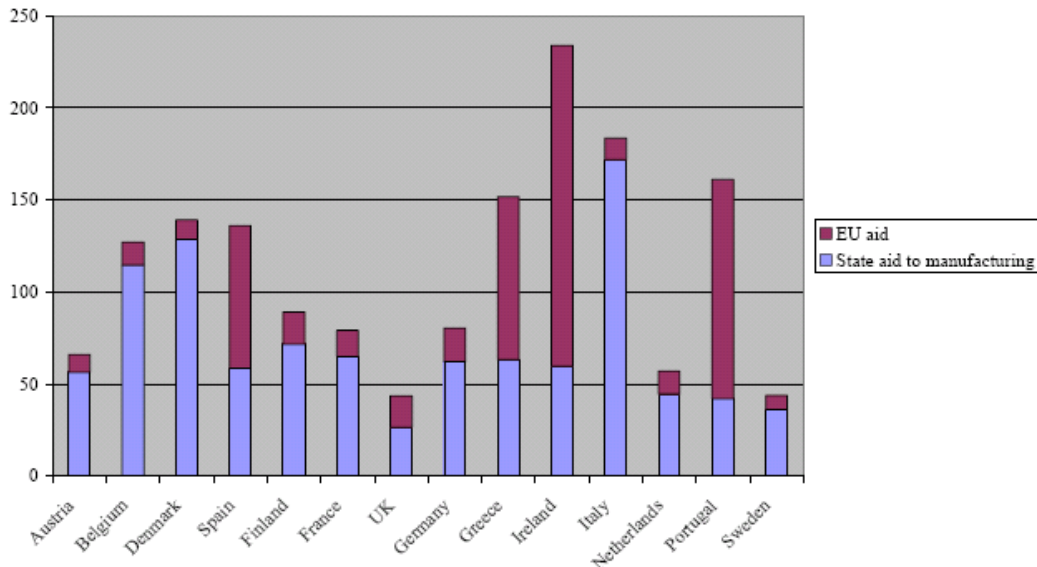
\* includes closure of Luton Vehicle plant and transfer of Vectra production to Ellesmere Port

\*\* New Astra model introduced 2003 and Vectra moved overseas leaving single model plant

The above picture suggests that it is the continuing commitment to new models which is the key factor to success and retention of capacity. Both Honda and Toyota have invested at a similar level over the same period (£417m and £479m respectively) with a model mix being maintained throughout this period at both Swindon and Burnaston.

5.4. Whilst recognising that government has made available grants to Motor Assembly plants over the years, the record of UK state aid for manufacturing generally is significantly less than that applied in our immediate European neighbours. The figures below illustrate the disparity between the UK and Germany, France, Italy and Spain for the Year 2004.

## Aid (ECU per capita)



### 6. Investment Decisions in UK and abroad

6.1. The decision on where to locate new investment is determined by a number of factors many of which mitigate against the choice of the UK as the prime site for investment in the current global and European market place. Amicus believes that the key investment drivers are:

- Costs
- Labour flexibility/skills
- Market penetration

6.2. There is no doubt that costs are a major consideration in current investment decision. As far as labour costs are concerned the UK compares favourably with its two major competitors France and Germany. However, with the extension of the EU, the competition is tough. Hourly rates in Slovakia and Slovenia are currently around 7.0 Euros compared to 18.0 euros in the UK, 22.0 Euros in France and 34.0 Euros in Germany<sup>1</sup>

6.3. But labour forms only 10% of the cost of a car and clearly other factors play an important role in determining investment decisions. The Japanese decisions over the last 10 – 15 years have been guided very much by the need to establish themselves in the European Market. The decision to elect to come to the UK within Europe may well have been in part influenced by the labour flexibility and skills available. This, of course, Amicus will argue has proven to be a double edged

<sup>1</sup> Moving up a gear – Centre for Automotive Industry Research, Cardiff Business School 2005

sword with that same flexibility providing an ease of dismissal which ranks the UK 15<sup>th</sup> out of 155 world economies whilst France and Germany are ranked 142 and 131 respectively.<sup>2</sup>

6.4. Amicus is concerned that future investment decisions will be governed by a combination of factors which sees the UK increasingly reliant upon imported cars for its own market and more of the UK production being exported. Professor Garel Rhys of Cardiff University cites this factor alongside the high proportion of imported components as a reason for the decisions currently being taken at both Ellesmere Port and Ryton.<sup>3</sup>

6.5. The most recent vehicle production figures only serve to emphasise the export driven production of UK based car manufacturers with 75.1% of all cars manufactured in the UK this year being exported<sup>4</sup>. Total car production, seasonally adjusted, in the three months to April 2006 rose by 0.4 per cent compared with the previous three months. Home production increased by 0.7 per cent in this period, while export production rose by 0.4 per cent. In comparison with the same three months a year ago, total production fell by 7.8 per cent. Home production decreased by 21.6 per cent, while export production fell by 2.6 per cent.

An average of around 136,000 cars a month were produced in the three months to April. Of these, around 103,000 cars were for the export market and around 33,000 were for the home market.<sup>5</sup>

6.6. Amicus anticipates that the drive towards vehicle assembly in Central and Eastern Europe as seen in the table in para 6.7 overleaf is promoted by taxation regimes, EU aid, investment costs and low wages together with component suppliers already in place having moved there in previous years. The labour cost advantages which has led to this shift from west to east is shown below:<sup>6</sup>

Western Germany: 25.8 euros per hour (2005)

Eastern Germany: 16.5

Poland: 5.4

Hungary: 4.7

Czech Republic: 4.2

Slovak Republic: 3.3

6.7. Of the developments shown below, the Toyota/PSA (Peugeot) joint venture at Kolin will see an investment \$1.5billion with a capacity for 300,000 cars per annum. It is expected that 40% of component suppliers to the plant will be located in the Czech Republic.

---

<sup>2</sup> World Bank Group – [www.doingbusiness.org](http://www.doingbusiness.org)

<sup>3</sup> Garel Rhys – The Observer 21<sup>st</sup> May 2006

<sup>4</sup> SMMT Ltd

<sup>5</sup> ONS 25<sup>th</sup> May 2006

<sup>6</sup> Source: Centre for Automotive Research (Germany)

Year	Country	Location	Investment
2005	Czech Republic	Kolin	Toyota/PSA car assembly plant
2006/7	Slovakia	Zlina	Hyundai/Kia Assembly plant
2006	Slovenia	Novo Mesto	Refurbished Renault plant
2006	Slovakia	Trnava	PSA Plant
2004	Slovakia	Bratislavia	VW (Skoda) expansion

6.8. Amicus remains convinced that the distortions between the UK employment and consultation legislation is a major factor in the decisions of multi national companies when it comes to restructuring, redundancies and closure. We set out below some of the key differences and refer the Committee to the recent comments made by Carl-Peter Foster, president of General Motors Europe, that "...Britain's more flexible labour market" made job cuts easier in Britain than elsewhere.

6.9. The extent of this weakness in our ability to retain manufacturing jobs is illustrated below in brief terms to show why it is easier and therefore cheaper to sack UK workers than their European counterparts:

#### **Information and Consultation**

- In the UK, the employer controls the redundancy process. Consultation takes place dependent on how many are due to be made redundant, i.e. once the decision has been made.
- In France and Germany employers and employee reps must agree on how redundancies are handled through real consultation and in France they must even make the case that they are necessary at all.

#### **Social Plan**

- French and German employers must provide further help for those facing the sack - in some cases agreeing a "social plan" with further compensation, training and development provisions, and placing employees in new jobs.

#### **Cost**

Minimum redundancy pay in some EU countries is almost five times that in others:

- The UK and the Netherlands have the lowest levels at £5,128 and £5000 respectively;
- Most generous are Spain (£25,464), Belgium (£15,000) and Italy (£18,276);
- Average redundancy pay across the EU after ten years' service is £11,163, more than twice the level of the UK.

The above figures are based on minimum statutory paid notice and severance pay for a white-collar employee aged 40, made redundant after 10 years on a salary of 30,000 Euros<sup>7</sup>

### **EU Employment legislation in the UK - How we compare**

- Watered down the provisions of the information and consultation directive;
- Watered down the Working Time Directive;
- Blocked the Agency Workers Directive at Council, Heads of Government level;
- Now trying to prevent the European Constitution from enshrining many basic working rights.

All the evidence suggests that watering down these provisions is also watering down our competitiveness, productivity and economic success:

- In France, where higher standards at work and a maximum working week are enjoyed compared to the UK, productivity is 25 percentage points higher than the UK and manufacturing jobs have increased by 150,000 since 1997;
- In Germany, where workplace legislation is also much tougher than the UK, productivity is 18 percentage points higher than the UK and manufacturing has increased by 120,000 jobs since 1997.

The most recent UK labour market statistics for the 3 months to March 2006 show that UK workers are working increased hours whilst the unemployment rate is increasing (up 0.5 over the year) and employment in manufacturing continues to fall, (down 3.7% in February 2006.)<sup>8</sup>

The level of redundancies in the UK for the 3 months to February 2006 remains highest in manufacturing.

### Foreign investment

6.10. Amicus has carried out a study of the investment records of the major automotive manufacturers, with UK plants, across Europe. It is from this study that we have detected a significant shift to Eastern and Central Europe over the last 10 years. We do not concur with the view that there is over-capacity in global terms, and this is clearly supported by the expansion of markets in China, India, Russia and the rest of Central and Eastern Europe. In Russia alone, Nissan and Toyota are joining Ford with new plants coming on stream in St Petersburg in 2009 and 2007 respectively. These developments, alongside those already highlighted in para 6.7 of this memorandum in Eastern Europe, demonstrate the anticipated growth of demand in the industry.

---

<sup>7</sup> Mercer Human Resource Consulting, 2003

<sup>8</sup> ONS – Labour Market trends May 2006

6.11. The world market is expected to grow by 25% over the next 10 years from 60 million to 75 million vehicles.<sup>9</sup>

6.12. The measurement and comparison of investment patterns by the global players in the industry also highlights the disparity between investment levels in the UK and the “home” country.

<b>EU Comparison of Investment Levels in Motor Industry and Impact on Employment</b>				
<b>Company</b>	UK Investment 2000- 2004	EU Investment 2000 - 2004	Employment Change in EU 2000 - 2004	Employment Change in UK 2000 - 2004
Peugeot	£107m	£5910.8m	8.5%*	-20%
General Motors	£452.6m	£3711.5m	-31%	-37%
Ford	£3912m	n/a	-48%	-41%**
BMW	£618m	£11400m	22%	52%
Honda	£418m	n/a	n/a	24%
Nissan	£585m	n/a	n/a	-15%
Toyota	£479m	n/a	26.6%***	53%

\* Change in employment in France only

\*\*Excludes Ford Premium Automotive Group

\*\*\* 2002 – 2004 only

The Japanese companies and Ford do not publish a breakdown of investment figures for Europe from the overall global figures.

6.13. Particularly striking are the Peugeot figures where lack of UK investment compares with the significant investment by Peugeot both at home in the new accession states of Czech Republic and Slovakia. BMW investment in the EU is predominantly in Germany. Ford investment in the UK has been mainly in the new engine plants.

6.14. Employment levels in Peugeot in France have grown by over 8% and further growth in Europe will occur over the next 2 years as the new plants in the Czech Republic and Slovakia become fully operational.

6.15. BMW investment, although welcome in the UK Mini plant, represented only 73% of the value per employee in Germany in 2004, whilst GM Motors in the UK were investing only 37% per employee of the equivalent value invested across Europe.

6.16. Whilst the UK has attracted continued investment over the period from Global manufacturers this has been at a lower rate per employee than other parts of the EU.

<sup>9</sup> Toyota Annual report July 2005

## **7. Role played by Trade Unions in the industry**

- 7.1. The automotive industry in the UK has a long history of trade union organisation particularly in the vehicle manufacturing part of the industry. As the development of the component industry as a separate part of the sector has evolved the trade unions have developed their organisation similarly. In recent times the trade unions have been involved in the evolution of modern manufacturing processes representing workers whose skills are at the cutting edge of manufacturing.
- 7.2. At the same time the industry has undergone a major change in its structure and ownership leading to the current position where all major motor vehicle assembly in the UK is carried out by Global companies based overseas. Notwithstanding these changes, trade unions have continued to represent workers across the industry at all levels and have made significant contributions to the retention of the industry in the UK. Amicus believes that the modern vehicle manufacturing industry has, and should continue to play, a central role in the UK's manufacturing industrial strategy.
- 7.3. The role of trade unions has been sidelined by employers and the lack of legislative support enjoyed by other workers in other EU countries. Decisions affecting UK workers are taken without consultation or union/employee involvement. Unlike our counterparts in Germany for example who will have a presence on the Supervisory Board at best worker representatives from the UK who sit on the EWC's are paid lip service at these fora. In the absence of adequate employee protection and consultation provision the UK trade unions are limited to a fire fighting role.
- 7.4. Given the importance of the industry to the UK manufacturing economy and its globalised nature, Amicus believes that a National Sector Council should be established on which the industry, trade unions and government should be equally represented. Such a body would mirror the intentions of the government's commitment to establish sectoral bodies, with a specific function to monitor the performance of the industry in the UK whilst tracking European and global developments. In addition, the Council would seek to provide an early warning system of changes in the sector which might impact negatively upon the UK sector and examine potential strategies to avoid such impacts or mitigate the effects. Amicus believes that the tri-partite nature of such a body would bring a new dimension to the work of government and create a mechanism through which a more proactive role could be developed to help sustain the sector in the UK.

## **8. Role of government**

- 8.1. This evidence looks at the role of government from two perspectives. Firstly it will address what Amicus sees as the need for government intervention on a continuing proactive basis and secondly will comment upon the response needed in the event of plant closure.
- 8.2. Amicus recognises the horizontal measures which the government has put in place over the past 5 years including tax credits, research and development assistance and the investment in sector skills councils. However, it is clear that despite these and other horizontal measures together with macro-economic stability, manufacturing as a whole continues to haemorrhage 100,000 jobs a year. In these circumstances Amicus would look for vertical measures from government which include direct intervention in the automotive sector. The proposed National Sector Council above would provide the mechanism for direct involvement of all stakeholders in a strategic look at the industry in the UK over the next 5 – 10 years with government understanding what needs to be done now and during that period to encourage greater investment in the UK automotive industry.
- 8.3. Government needs to look at the abysmal record of capital investment in the UK, (manufacturing investment has fallen steadily by almost 40% since 1998)<sup>10</sup>, and establish why investment in industry is failing to match that in other EU countries. In terms of the motor industry it is clear from our evidence elsewhere in this document that investment is a key factor in the levels of success experienced by different plants in the UK.
- 8.4. Amicus suggests that one potential area for greater government intervention is, through partnership with the industry, to pump prime an investment programme for a strategic initiative to provide a long term programme of research and development and manufacture of environmental friendly motor vehicles, here in the UK where it could establish us as world leader in this field. It would secure the existing car manufacturing base and provide a springboard for the resurgence of the rest of UK manufacturing and engineering sector.
- 8.5. Government should also use its own purchasing power through its procurement policies to support motor vehicles made in the UK and should ensure that appropriate social clauses are included in procurement contracts to achieve this. Amicus would remind the Committee that the Chancellor has previously argued that wherever possible, within the requirements of EU procurement directives, that government procurement should benefit UK industry and UK workers. The UK government should examine what transpires in other EU countries and seek to reflect similar practices in the UK.

---

<sup>10</sup> ONS – DTI Review of Government's Manufacturing Strategy

8.6. In respect of assistance that government can provide to workers displaced as a result of plant closure, Amicus recognises the support that was provided to the workers at MG Rover last year. However, there are a number of lessons to be learnt from that process.

8.7. For workers to be able to benefit from training provision there has to be adequate earnings during training. The absence of this following the closure of Longbridge led to a number of workers having to take up paid employment whilst foregoing the opportunity of training on purely economic grounds. This led to the large proportion of MG Rover workers identified as having taken work outside of manufacturing with significantly lower earnings. The Amicus survey of its own members has shown that of the 50% that have so far found work, only 15% have secured work in manufacturing. In the worst cases, members are earning less than half of the salary enjoyed at MG Rover.

8.8. The MG Rover Task Force report published in March this year indicated that 63% of all workers (4,000) had found employment. In that report over half are on lesser earnings than at MG Rover. In research carried out by the Work Foundation<sup>11</sup> for a BBC radio programme nearly half of the workers thought their current job was worse than their job at MG Rover, and nearly 40% saw their new job as a stopgap until a better job came along.

8.9. The management of the training and job finding process also created some problems for the workers. Although the system was managed centrally through the MG Rover Task Force, the linkage with local Job Centres did not always provide ex-employees with the information necessary to progress their training needs.

## **9. Conclusion and Summary**

9.1. Amicus through this additional evidence has sought to highlight the issues which need to be addressed if we are to retain a sustainable automotive industry in the UK. Our key points of action are summarised below:

- Level playing field for UK workers to provide equal protection from redundancy and closure (para 6.9)
- Application of government procurement policy in a manner which gives weight to retention of UK manufacturing jobs (para 8.5)
- Establishment of National Sector Council for the industry (para 7.4)
- A government led strategic investment programme in environmentally friendly vehicles (para 8.4)
- Improved funding of displaced workers undergoing training (para 8.7).

---

<sup>11</sup> The Work Foundation – Life after MG Rover

**Derek Simpson**  
**Amicus General Secretary**