Joint Project of the European Social Partner Organisations

***Study on restructuring in new Member States***

# HUNGARY—CASE STUDY ON AUTOMOBILE/VEHICLE MANUFACTURING SECTOR

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**The present case study represents an expert view and does not necessarily reflect the view of the European Social Partners**

# 1. INTRODUCTION: PURPOSE OF THIS DOSSIER

This dossier is aimed at an audience that is not necessarily expert in the Hungarian automotive and vehicle sector, its restructuring process and the connection of restructuring to the social dialogue process. This draft case study is aimed at stimulating discussion among Hungarian social partners, their counterparts at the European level, and among experts. It is in no way considered final, and comments/suggestions, as well as information sources are gladly accepted so that the final version will be acceptable to all.

This information is thus aimed at a non-Hungarian audience and is intended to solicit reactions from the 9 social partners (4 employers' organisations, 5 labour organisations) involved in this project. These organisations are those social partners who are members of European-level social partner organisations (ETUC, UNICE, UEAPME, CEEP).

The results of the debate and the observations of the participants will be incorporated into the final versions of the country dossier and this case study. Please note that this is a working document that does not yet enjoy the inputs of all stakeholders involved in the automobile and vehicle industry.

# 2. GENERAL RESTRUCTURING TRENDS IN MID-2005

Hungary's economic transition began in the mid to late 1980s when the country joined the IMF and the World Bank. In 1990, Hungary already had laws on personal income taxation, bankruptcy, value added tax and the complete legal framework for transformation, and ultimate privatisation of the state sector was already in place. The transition shocks took place in the early 1990s with the collapse of the Soviet Union, with most of the old state sector manufacturing, mining and other traditional industries privatised and consolidated by the mid-1990s.

Hungary's automobile sector lay dormant during the years of socialism, with the first automobiles manufactured in 50 years in Hungary by Opel starting with the Astra model in 1992. Hungary's traditional role in the socialist bloc was to provide passenger and city buses (Ikarus), and heavy trucks, engines and other components such as transmissions, axles and undercarriages. (Raba). Hungary, unlike other members of the socialist block such as East Germany (Trabant, Wartburg, IFA etc), and Czechoslovakia (Skoda), did not manufacture passenger vehicles. These former socialist enterprises have undergone privatization and massive restructuring in the early 1990s and now manufacture different products with much fewer employees. In the meantime, significant automobile greenfield investments have taken place with Opel, Audi and Suzuki all manufacturing, or at least, assembling automobiles in ever increasing numbers. The small and medium firms that supply these three, and the organic restructuring that have taken place at all three new manufacturers will be mentioned in more detail than the rapid demise of socialist heavy industry that has already taken place in the early 1990s.

Transformation issues

This study will describe the Hungarian automobile and vehicle industry, and offer an example, not a case study, of Raba's Carriage Works as a restructuring that is noteworthy. The activities of the new entrants to the sector, Opel, Audi and Suzuki, have been expansionary on a net basis, therefore their restructuring is a natural process related to Hungary's EU accession and role in the global supply chain of these multinationals, while the case of Raba reflects restructuring in a formerly socialist enterprise that has already undergone restructuring once.

Besides changes in the automobile sector, we must mention other sectors that will face restructuring soon, although these are discussed in detail in the Country Dossier.

- The following sectors face restructuring in the short run, affecting over 800,000 public employees, or 21% of the workforce. Public employees and civil servants are also well-represented by social partners, i.e. have significant labour union membership:

  -Post office upon liberalisation

  -State Railways upon liberalisation

  -Public Administration system upon "regionalisation"

  -Healthcare delivery and financing system

  -Local government (municipal sector)

  -Education (mostly primary as it is a municipal responsibility)

  -Social welfare and other social delivery systems

The Ministry of Economics and Transportation has determined that 70% of the growth in manufacturing has taken place in the automobile and transportation, as well as electrical machinery sectors in 2004, and this is expected to continue in 2005.

The following table shows planned and realised FDI in Hungary in 2004 and 2005. It confirms that automobile manufacturing; automobile parts and other medium and high tech manufacturing dominate among foreign investors.

**NEW JOB-CREATING INVESTMENTS IN HUNGARY 2003-2005 (partial list)**

| Name | Activity | Settlement | Investment (billion HUF) | Persons |
|---|---|---|---|---|
| | | | | |
| **Audi AG** | **Car and engine production** | **Győr** | **110** | **no data** |
| **Suzuki** | **Car production** | **Esztergom** | **110** | **700** |
| Elektrolux AB | Refigeratior production | Nyíregyháza | 15,9 | 600 |
| Elcoteq | Electronics | Pécs | 13,2 | 688 |
| Nokia | Mobile phone | Komárom | 12,3 | 1000 |

| | | | | |
|---|---|---|---|---|
| Nitrogénművek Rt. | Nitric acid production | Pétfürdő | 13 | no data |
| Sanyo Electronic Co. | Solar cell and air-condition production | Dorog | 6,5 | 300 |
| Jabil Circuit Kft. | Radio relay service | Szombathely | 3,7 | 700 |
| **Musashi Hungary Kft.** | **Car components production** | **Ercsi** | **3,7** | **240** |
| Spar Magyarország | Food wholesaler | Bicske | 3,5 | 120 |
| Mirae | Mobil phone parts | Komárom | 2,5 | 300 |
| Egis Rt. | Medicine production | Körmend | 1,2 | no data |
| SWS Ltd., Fleming Ltd. | Windmills | Bakony | 24,5 | no data |
| **Asahi Glass Co.** | **Windscreen production** | **Tatabánya** | **15** | **200** |
| EETEK Hungary Kft. | Wind power plants | Hárskút | 13 | no data |
| Felleskjopet, Dtech | Corn and peas drying | Vasmegyer | 1,3 | no data |
| Neptunecht Kft. | Concrete-part production | Edelény | 1 | 50 |
| Balda AG | Mobile phone production | Veszprém | 0,5 | 750 |

Data from Figyelő magazine, Feb 11, 2005.

Two significant automobile sector restructurings have taken place in the 2003-2005 period. Raba and Ikarus reflect the remnants of socialist heavy industry that itself had been restructured and privatized once already. Opel's reduction meant movement of manufacturing out of Hungary and shifting to Poland, while at the same time Opel added white collar staff to its regional offices in Budapest with the introduction of the Chevrolet brand.

Job Reductions in Hungary, 2003-2005 (non-inclusive)

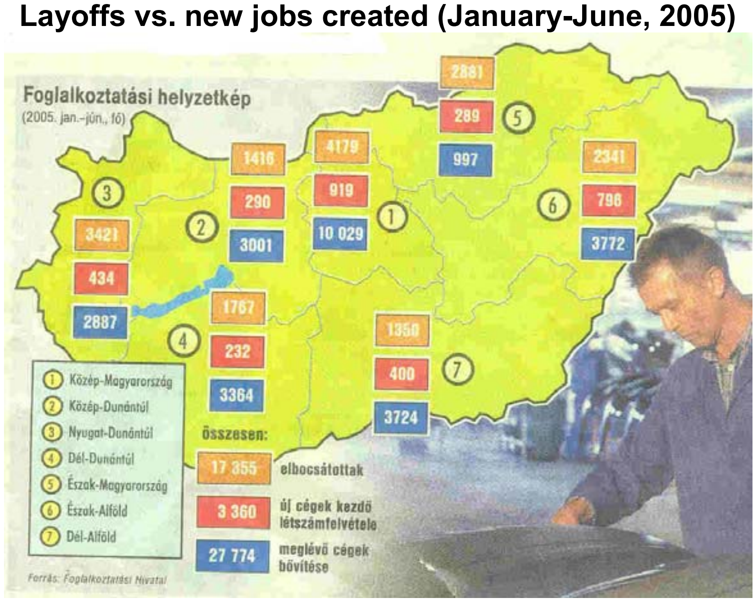
| Name | Activity | Announcement date | Jobs Reduced |
|---|---|---|---|
| | | | |
| Mary 2000 Cipőgyár Kft. | Footware industry | 2003 | 700 |
| Brown & Root | Army support | 2003 | 639 |
| Styl Ruhagyár Rt. | Quality textiles | 2005 | 600 |
| Uniontext Kft. | Textile industry | 2003 | 430 |
| Imperial Tobacco | Tobacco production | 2004 | 380 |
| Kraft Foods | Coffee and sweets | 2004 | 320 |
| Tokodi Üveggyár Kft. | Glass industry | 2004 | 320 |
| Sabona Kft., Salamander | Shoes | 2003 | 301 |
| Za-Ko Rt. | Clothing | 2003 | 240 |
| **Ikarusbus** | **Bus production** | **2003** | **187** |
| Corona baromfi Kft. | Poultry | 2003 | 180 |
| Warten-Tisza Rt. | Furniture production | 2003 | 170 |
| Hammer-Hungária Bt. | Sewing | 2003 | 160 |
| Parmalat Hungária Bt. | Milk products | 2004 | 130 |
| Triumph | Underwear | 2005 | 105 |
| Dunaújvárosi Nyomda Rt. | Printing | 2003 | 44 |
| Vértesi Erőmű Rt. | Electricity production | 2003 | 1200 |
| Videoton | Communications equip | 2003 | 1000 |
| Elektronikai és Mechanikai Kft. | Electronics | 2003 | 900 |
| Philips Magyarország Kft. | Electronics | 2003 | 500 |
| Pick Szeged Rt. | Pork slaughterhouse | 2004 | 450 |
| Ringa Rt. | Meat industry | 2003 | 427 |
| Flextronics | Contract manufacturing | 2004 | 400 |

| | | | |
|---|---|---|---|
| Philips Magyarország Kft. | LCD monitors production | 2004 | 370 |
| Ajka Kristály Kft. | Glass production | 2003 | 300 |
| Zalakerámia Rt. | Ceramics | 2004 | 270 |
| MSC Marc Hungary Kft. | Footware industry | 2003 | 230 |
| Moldin Kft. Pannonplast | Plastics | 2004 | 230 |
| **Rába Futómű Rt.** | **Carriages, transmissions** | **2003** | **175** |
| ICN Magyarország Rt. | Medicine production | 2004 | 135 |
| Brau Union Hungária Rt. | Beer production | 2004 | 120 |
| Sole Hungária Rt. | Food industry | 2003 | 109 |
| Friesland Hungária Kft. | Milkpowder production | 2004 | 100 |
| British American Tobacco | Tobacco Production | 2004 | 90 |
| **Opel Magyarország Autóipari Kft.** | **Engines and transmissions** | **2005** | **90** |
| Borsodi Sörgyár Rt. | Beer production | 2004 | 50 |
| Tchibo Budapest Kft. | Coffee and sweets | 2005 | 48 |
| ATEV Fehérjefeldolgozó Rt. | Animal byproducts | 2003 | 40 |
| Zsolnay Porcelángyár Rt. | Ceramic components | 2004 | 25 |
| Hollóházi Porcelán Rt. | Fine china | 2003 | No data |
| Skanska Ingatlan Rt. | Construction acivity | 2003 | No data |

Data from Figyelő magazine, Feb 11, 2005.

New data became available in September, 2005, that indicates that job reductions for any reason, including restructuring amount to a little over half of the total number of new jobs created by the expansion of existing firms and by the formation of new firms.

**Layoffs vs. new jobs created (January-June, 2005)**




Source: Világgazdaság and Employment Service, September 7, 2005

Since in most regions of Hungary more jobs were being created by existing firms than were being reduced, and these existing firms added near nine times as many jobs as new firms, the overall issue of restructuring does not have only negative connotations, and restructuring can be seen as creating more jobs than are being lost.

- Restructuring and the social tension caused by "negative balance" restructuring is a highly localized issue, with national social partners and interest representations often being involved when it is "already too late."
- Due to the localized nature of the negative effects of restructuring (not routine bankruptcies among small and medium firms), mobilizing national concern in the press and among less direct stakeholders, is also more difficult. The turbulence and frequency of job loss and creation makes it difficult to draw general conclusions about restructuring. .
- The statistics seem to indicate that the net effect of restructuring, delocalisation and the movement of FDI in and out of Hungary, still is overwhelmingly positive in narrow segments of the labour market. (Note the movement of 50.000 jobs described above is rather modest compared to the total labour force size of over 3,8 million).

## 3. RESTRUCTURING AND SOCIAL DIALOGUE

Several conclusions about restructuring in general are needed before describing the status of the automobile industry.

- Restructuring is considered my most social partners as a natural part of the transition from a planned economy to a market economy that really began in Hungary in the mid-1980s.
- Hungary experienced a much larger boom in Greenfield investment than in privatisation revenue, and the Greenfield investments are often on the second owners by now. Thus the shocks in agriculture, steel, and other heavy manufacturing have taken place before 1995.
- "Massive" or "group" layoffs are regulated separately from routine removal of employees for other causes.
- What is causing concern in Hungary re. restructuring are decisions that are made globally or on a European-scale, over which the host community or country has little influence, and pressure from countries further to the East, i.e. Romania, Ukraine, China etc.
- The rules pertaining to mass layoffs in Hungary apply to firms with more than 20 employees[1]

[1] If a firm with 20-100 employees lays off least 10 employees, or a firm with 100-300 employees lays off at least 10% of its employees, or a firm with over 300 employees lays off at least 30 employees within a month, then provisions of the Labour Law (1992, 2003, 2005) pertaining to "mass layoffs" must be followed. In this context, special restructuring provisions pertain only to a narrow segment of the

.

- The Labour Law (1992, 2003, and 2005) defines a limited set of benefits for those who are let go without cause, that is, are let go for financial reasons not because of bad performance or other disagreement with their employer. This includes basically only severance pay, which is scaled according to the number years of being employed with the employer concerned.
- In the case of “mass” layoffs as defined above (applies to firms with over 20 employees only) there are several important provisions in the Labour Law.

1. At least 15 days before the decision is made, the management must consult with the representatives of the employees, i.e. the enterprise council and the union. (enterprise councils are only required if there are at least 50 employees), or with a workers’ committee if there is no council and no union. The layoff needs to be justified, and the benefits defined according to the collective agreement and/or the law. If the workers’ representatives and the management form an agreement, that must be sent to the County Labour Centre. If the workers’ representatives feel their consultation rights have been violated, they may appeal to a court, but that will not stop the layoffs.
2. The County Labour Centre must be informed of the layoff decision at least 30 days before the layoff letters are transmitted to the employees. Full information on the employees must be forwarded. The employees must also be notified thirty days before the layoff letters are delivered. Certain workers are protected from layoffs, such as those on disability, maternal leave etc, and their layoff letter can only be forwarded once they leave “protected status.” (Employees fearing a layoff can ask a corrupt doctor to put them on disability or sick leave almost indefinitely). If any of these provisions are violated, the employee may turn to the Labour Court.
3. The notification period is at least 30 days (in addition to the prenotifications above). The usual provisions for severance pay apply, unless the employer decides to pay a higher collective severance fee than legally required. On the last day of work, the employer is obligated to make all payments, and to issue all needed documents.

## IV. THE BALANCE OF RESTRUCTURING AND THE AUTOMOBILE/MOTOR VEHICLE INDUSTRY

General Situation

Two simultaneous effects are taking place in the automobile sector in Hungary. The remnants of two large firms active in the socialist era, Ikarus and Raba, are still undergoing restructuring despite having been through the privatisation process, and in the case of Raba, listing on the Budapest Stock Exchange. At the same time, greenfield investments by Suzuki, Opel and Audi have matured but are still expanding the types of production and services offered in Hungary. Changes at Suzuki, Opel and Audi seem to operate autonomously from conditions in Hungary, as these plants and regional headquarters are now part of a global value-added chain. Hungary’s accession to the EU meant that certain customs and tax advantages that initially attracted

workforce, and the overwhelming majority of employees do not have special restructuring rights unless they are state officials or public employees, or work in firms with more than 20 employees.

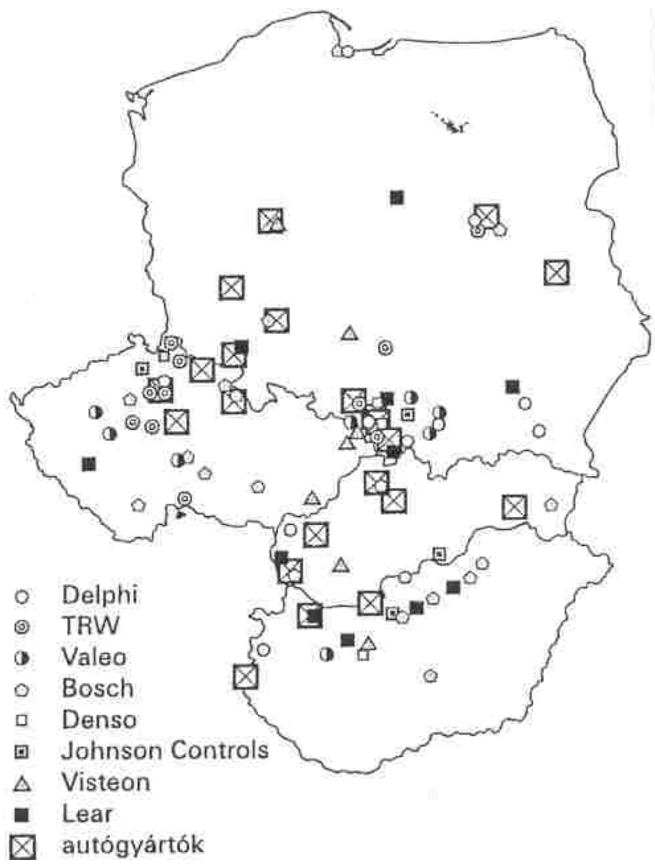
assembly plants are now less important. So restructuring by Opel, i.e. moving certain manufacturing functions to Poland are not a direct reflection of conditions in Hungary, rather, reflect a Europe-wide optimisation scheme. Certain regional marketing, finance and management functions, however, were moved into Hungary by its Opel Southeast Europe subsidiary, at the same time manufacturing was shifted to Poland with much larger scale economies.[2]

Thus the first wave of restructuring took place in the early nineties in the traditional socialist heavyweights such as Raba and Ikarus, while completely new plants were established by Suzuki and Opel and Audi, that export over 90% of their output to EU, the former Soviet Union and even the Far East. In the second wave of consolidation in anticipation and after EU accession, the privatized former heavyweights underwent more restructuring (Raba Carriageworks will be described later), while the new manufacturing facilities underwent further expansion, and integrated with auto manufacturing clusters emerging in Slovakia and Poland (Skoda, Peugeot, Volkswagen etc).

Thus automobile parts and automobile assembly in Hungary also has a regional cluster feature, with major component manufacturers following the prime manufacturers to Hungary, Slovakia, Poland and the Czech Republic.

[2] For general history of the automobile sector in Hungary see Miklos Somai, „The Hungarian Automotive Industry," Working Paper 131 of the Institute of World Economics, Hungarian Academy of Sciences (October 2002), and Gyorgy Kukely, „Road transport manufacturing's role in regional industrial development (in Hungarian)," in 100 éve szuletett Medol Tibor (Festschrift), Trefort Kiadó (2005), Perczel and Szabo, editors.

## Emerging Automotive Clusters in CEE




**(automobile manufacturers)**
**Source: Kukely, 2005**

- A potential "third wave" of delocalisation, restructuring could take place as major manufacturers "rationalise" the Central European automotive cluster to eliminate redundancies. On the other hand, it seems that manufacturing will be relocated to this cluster in the coming years from Germany and other high labour-cost locations so the net effect may yet be positive. (See in particular optimistic projections by the German IKB Deutsche Industriebank).[3]

Integration of Suppliers into manufacturing chain:

Academic research on the integration of local suppliers and local value added into the operations of multinational automobile manufacturers indicate several major problems[4]. Local value added at the Audi and Opel plants was between 2 and 10% recently, with slightly higher

[3] Karsten Gerhardt, „The automotive industry in Eastern Central Europe," IKB Deutsche Industriebank, April 2004.

[4] See in particular, Slavo Radosevic and Andrew Rozeik, „Foreign Direct Investment and Restructuring in the Automotive Industry in Central and Eastern Europe," Centre for the Study of Economic & Social Change in Europe, University College, London. Working Paper No. 53 (March 2005).

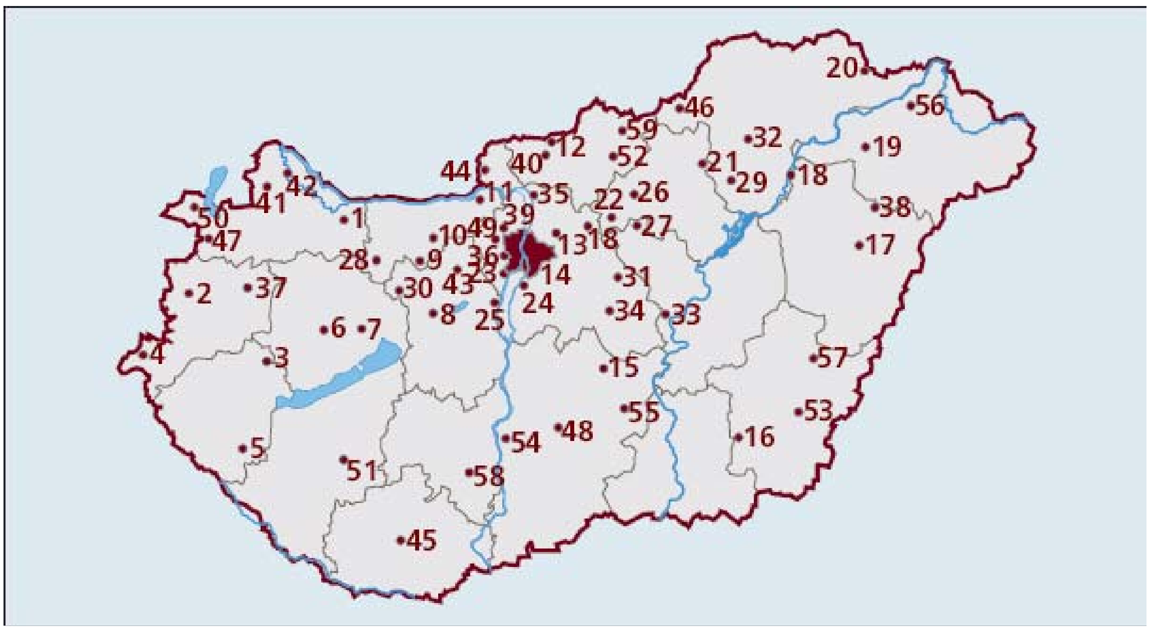
values at Suzuki that has a different approach to nurturing stakeholders. Suzuki, of course, had an interest to achieve 60-70% "European value-added" before EU accession.

The reasons for relatively low local value added are the following:[5]

-local firms are undercapitalised and could not rapidly adjust and become suppliers to the multinationals without much assistance;

-multinational manufacturers encouraged their own suppliers to establish new manufacturing facilities in Hungary; (VAW, Loranger etc. supply both Opel and Audi). See table below to see how global suppliers have followed the multinational manufacturers to Hungary.

## Major Automotive industry investments




[5] See Somai, summary section.

**1.** Győr – Erbslöh, Rekard Produkt, Audi, Rába, Gypri Plast, Rudolph Logistik, Hydro Aluminium **2.** Szombathely – Delphi Packard, Eybl, LuK Savaria, BPW Rába **3.** Jánosháza – Eybl **4.** Szentgotthárd – GM Opel, Allison Transmission **5.** Nagykanizsa – Eybl, Ajkai Elektronikai Kft. **6.** Ajka – Le Bélier, Ajkai Elektronikai Kft. **7.** Veszprém – Bakony Rt., Valeo, Continental Teves **8.** Székesfehérvár – Denso, Alcoa, Loranger, Visteon, Videoton, General Plastics **9.** Oroszlány – Wescast-Linamar, 3 K Warner **10**. Tatabánya – Souftec, Euro-Exedy **11**. Esztergom – Suzuki, Diamond Electric, Albert Weber **12**. Balassagyarmat – Delphi- Calsonic **13.** Gödöllő – Lear, Nief Plastic, EMT **14.** Budapest – UBP Csepel, Tauril, GE, NABI, Michelin, Webasto, TEMIC, Beroha, Ikarus, Rába, Fémalk **15.** Kecskemét – Thyssen, Knorr-Bremse **16.** Orosháza – Mezőgép-Linamar **17.** Debrecen – FAG **18.** Tiszaújváros – Akzo-Nobel Coating **19.** Nyíregyháza – Michelin, AIP Hungary, Phoenix, Hübner **20.** Sátoraljaújhely – PREC-CAST **21.** Eger – ZF Hungária, Berva, Firth Rixson Forgings, Leoni **22.** Hatvan – Bosch, LKH Leoni, Saia-Burgess **23.** Diósd – Daewoo-MGM **24.** Dunaharaszti – Schwarzmüller **25.**Ercsi – Musashi **26.** Gyöngyös – Stanley Electric **27.** Jászárokszállás – Carrier Transicold, Zeuna Stärker **28.** Kisbér – Ortech (U-Shin) **28.** Mezőkövesd – Delco-Remy, Exir **30.** Mór – AFL, Hammerstein, SEWS. Benteler, Rába, Michels **31.** Nagykáta – Clarion **32.** Miskolc – Bosch **33.** Szolnok – Eagle Ottawa, Isringhausen, Euroszol, Le Bélier **34.** Újhartyán – Hokushin **35.** Vác – Zollner **36.** Budaörs – Vogel-Sitze **37.** Sárvár – Rába **38.** Téglás – Hajdú **39.**Pilisszentiván – W.E.T. Automotive System **40.** Nagyoroszi – Knaus-Tabbert **41.**Mosonszolnok – SAPU, BOS **42.** Mosonmagyaróvár – Vogel and Noot **43.** Bicske – S+C Magyarmet **44.** Ipolytölgyes – Mono-Ipolyfabric **45.** Pécs – Industry VE.MA. **46.** Ózd – Saia-Burgess **47.** Sopronkövesd – Autoliv **48.** Kiskőrös – Eckerle **49.** Solymár – Johnson Controls Automotive, PEMÜ **50.** Sopron – Semperform, Dekorsy, Euro-Elzett **51.** Kaposvár – NABI **52.** Bátonyterenye – Bátony Steel Kft. **53.** Békéscsaba – Csaba Metál Öntödei Rt. **54.** Kalocsa – Lakoplasztuk, Emika **55.** Kiskunfélegyháza – Kunplast **56.** Kisvárda – Caroflex **57.** Szeghalom – Ikarus **58.** Szekszárd – BHG, Pfannenschwarz **59.** Salgótarján – Mitsuba

Source: ITDH

-multinationals are reluctant to replace suppliers used globally with untested local firms

-significant tax incentives were provided by the national and local governments to encourage greenfield investment by parts and components manufacturers instead of supporting existing local firms who could become suppliers;

-Suzuki now supports 60 local suppliers through its "family-oriented" approach, providing advice and a secure long-term market if the quality level is high enough;

-Most of the "local" value added comes from foreign-owned parts manufacturers;

-Manufacturing in Hungary relocated from Germany and other high cost areas optimalised Hungary's relatively low wages, long working hours and labour peace.

-Important supplier etc. decisions were made outside of Hungary, with the foreign parent prescribing all details of business operations for what became essentially export and re-export platforms.

-Independent local suppliers simply do not fit into this scheme.

<u>Industry Specifics:</u>

There are 350 companies in Hungary manufacturing automotive components, with sales of 9 billion euros per year. These firms have 90.000 employees, and they export 94% of the cars produced in Hungary and 88% of the engines. Four firms, Audi (Hungary's second largest firm), Opel, Suzuki and Visteon account for 90% of the Hungarian Automotive Industry Association's production. Audi, Opel and Suzuki account for 17% of Hungary's total exports. (see www.itd.hu/itdh/nid/automotive and the Association's home page, www.gepjarmuipar.hu )

Automotive manufacturing accounts for 13% of manufacturing in Hungary, and its production has grown sevenfold, while its exports tenfold, since 1992. The most important element consists of engines, with 1,7 million engines produced by Raba, Opel and Audi in 2003. Over 130.000 motor vehicles are produced in Hungary per year, while once mighty Ikarus and other bus companies produce fewer that 300 buses per year as compared with 13.000 in the 1980s. While export content is high, so is the proportion of parts that are imported and only assembled in Hungary. Traditional truck markets have shrunk for Raba, hence research and development has been cut back significantly. Most manufacturing takes place in export or duty-free zones, that requires high levels of skilled labour. (see Kukely, 2005, cited earlier).

<u>Automobile overall positive effect on employment…</u>

One can conclude that despite significant job cuts at Ikarus and Raba in the past two years, the overall balance in the automobile sector in Hungary is positive in terms of employment creation. As reproduced in the annex, data collected for 2005 by the European Monitoring Center indicates that though Ikarus closed a bus plant in Szeged in mid-2005, with a direct job loss of 156, new investments announced by Audi (+320), Bakony Muvek (+350) and Le Belier (+100 to 450) created at least 770 jobs, some of them in Central and Eastern Hungary, relatively close to the closed site in Szeged. With the exception of Audi, the new investments took place in areas with unemployment rates above the national average. Audi, as indicated in the Country Dossier, imports workers on a daily basis from across the Danube in Slovakia.

- While the automotive sector is still a net job creator, limited labour mobility for displaced workers is a cause for social concern.

## Raba Futomu Kft. (Raba Carriageworks Ltd.) case description

Raba was established in 1896 in Gyor during the Austro-Hungarian Monarchy as the Hungarian Railcar and Machinery Manufacturing Company. Its fate followed the fate of the Monarchy and was involved in manufacturing rolling stock, weapons and military vehicles in both world wars, automobiles, trucks etc. Raba manufactured Europe's first all-wheel drive vehicle before World War I and none other than Ferdinand Porsche served as a consultant to the firm at that time. After World War I, Raba continued to manufacture its traditional products, as well automobiles, trucks, buses and a variety of other machinery and components. Raba suffered greatly during and after World War II when it was evacuated to the West by the retreating Germans whose booty was then captured by the Allies. Raba was also bombed at the end of the war, with 300 workers killed, and the Soviet Army removed what it could as war reparations. Finally in 1949 what was left of Raba was nationalised, and automobile manufacturing was ceased in Hungary. Ikarus was assigned bus manufacturing, while Raba retained only carriages, steering and transmission manufacturing. During the socialist period Raba manufactured steel bridges, rolling stock, diesel engines, trucks, tractors. In the 1970s, Raba began to export to the United States. In 1992, Raba was transformed back into a company limited by shares and was reorganised. In 1997 Raba shares were sold to private investors and to the public and the shares became listed on the Budapest Stock Exchange. In 1999, Raba reorganised itself into a holding company, and many business lines became independent firms or were sold off.

**Raba Carriageworks Ltd**. Is just one of many Raba-owned firms, and instead of Gyor, is based in nearby Kapuvar, in Northwest Hungary.

- ***Raba Carriageworks was the only case of good or bad restructuring identified by any of the Hungarian Social Partners interviewed for the country dossier.***

On February 20, 2003, Raba Carriageworks Ltd. Announced a reduction of 175 staff members at its Kapuvar plant. The cut affected 6,8% of the employees. The staff members would receive all statutory benefits as well as benefits called for in the collective agreements. Raba Holding lost 2.4 billion forints in 2002,. The job cuts were justified by management due to the introduction of a new integrated MIS system that identified "non-productive" positions as well as those that did not directly add value to the firm. Raba offered 90 new positions to those who would accept retraining.  About 40 employees were old enough to qualify for early retirement.  The rest would be given free training during the separation period.

The Mayor of Gyor, Jozsef Balogh, represented 11.2% of the shareholders in Raba, called for a reconsideration of CEO Laszlo Steiner's management contract out of concern for the 175 employees let go.  (March 18, 2003).  A few months later, Raba announced additional job cuts at Raba Carriageworks, amounting to an additional 330 employees.  At the same time, Carriageworks would hire 180 new employees.  The trade union began legal action in April against Raba, and called for and held a warning strike on June 26, 2003.

By July, the CEO had been replaced, and the new CEO Istvan Pinter announced that the entire Kapuvar plant would be closed, and repositioned in Gyor and several other cities.  (This of course was not announced in February when management indicated it would not close Kapuvar).

Employees had to announce to management by September 30, 2003, whether they voluntarily accept similar positions in Gyor and of course, volunteer for a lengthy daily commute.  The machinery had been displaced to Gyor, Sarvar and to Papa, some of it put into storage.

By December 19, 2003, the Kapuvar plant was closed.  The legal entity, Raba Carriageworks by 2004 enjoyed a boom in revenues with a 41% increase in the first 9 months of 2004.  Carriageworks accounted for 2/3 of Raba's revenue in 2004. It seems restructuring of Raba Carriageworks was was a good business decision, and many employees were absorbed by continuing operations at Gyor and other locations.

But what started as a 6% reduction in February, ended up as a plant closing by December, with cuts at other locations as well.  The communication channels between labour and management did not seem to be too clear, and the national level social partners got involved a little too late according to one social partner.

## Views of Social Partners on Specific Case

**(to be completed)**

## General  Conclusions about auto industry/overall restructuring (Discussion Issues)

- Restructuring overall is seen as positive, with intensive local negative features if displaced labour cannot be absorbed or is not mobile.
- National social partners heard of the Raba Carriageworks situation only through the press
- Employers can offer creative incentives for displaced workers to stay within a holding or an area, such as transportation or relocation subsidies, retraining
- Restructuring is "positive" if it occurs in an area with labour shortages. If not, then labour is not mobile enough to move to such areas.
- Most restructuring cases happen quietly as the overall national balance is positive, so far at least.
- The advantages that accounted for the overall success of the automotive sector in Hungary may fade fast: tariffs, local and national tax incentives, competition and non-discrimination directives (automobile sector without more local value-added is sensitive and subject to restructuring due to competition from outside the EU).

<u>Some further drivers of restructuring at the firm level (see Radosevic and Rozeik, 2005, pp. 28-37)</u>

- European manufacturers dominate market in Central Europe (VW, Renault, PSA, Fiat) and their global decisions affect employment at the firm level. (Why aren't Opel and Ford considered European firms?)
- Restructuring will hit CEE soon, as minimum scale economies for automobile manufacturing are about 250,000 vehicles per year (Only Skoda and VW Slovakia are over this threshold).
- Local supply base is difficult to build (exception is nurturing policy of Suzuki in Hungary)
- Common platforms within automobile groups bring with it reduction of component suppliers and many parts are shared, meaning fewer producers are needed.
- The incentive to locate in CEE caused by tariff and tax concessions is fading. Local tax exemptions and national investment encouragement must meet EU competition and non-discrimination standards. In other words, the fundamental economic conditions will be more determinant and cannot be fully compensated for by tax incentives.

- Clusters within countries will form new European-level clusters with neighbouring countries. Already happening between Hungary and Slovakia, Czech and Poland etc. This means more reduction of duplication.
- “Full value creation potential” of CEE has not been reached yet (Radosevic and Rozeik, 2005) meaning a deepening of local supplier base, if they can compete and produce consistent quality.
- Further restructuring depends on condition of local suppliers, and the ability to increase local content….

## Annex: Recent Restructuring/investment events from the European Monitoring Centre

| | | |
|---|---|---|
| **Company: Ikarus** | **Group :** | Ikarus |
| | **Sector :** | Motor - Manufacture of motor vehicles |
| | **Number employed:** | |

| | | |
|---|---|---|
| **Employment effects:** | **Announcement Date:** | 2005-07-14 |
| | **Planned job reductions (min.):** | 156 |
| | **Planned job reductions (max.):** | 156 |
| | **Type of restructuring:** | Bankruptcy/Closure |
| | **Employment effect start:** | 2005-07-18 |
| | **Employment effect timeline:** | |
| | **Direct dismissals:** | 156 |
| | **Other job reduction measures:** | |
| | **Planned job creation:** | |

| | |
|---|---|
| **Additional information:** | Hungarian bus manufacturer Ikarus announced the closure of its plant in Szeged. The closure will affect 156 employees. |
| **Sources:** | Népszabadság, 2005-07-14 |
| **Links:** | |

**Company:** Audi Hungária Motor

**Geographic location:**

| | |
|---|---|
| **Country:** | Hungary |
| **Region:** | DUNANTUL ; Nyugat-Dunantul |
| **Affected unit(s):** | Győr |

**Company:**

| | |
|---|---|
| **Group :** | Audi |
| **Sector :** | Motor - Manufacture of motor vehicles |
| **Number employed:** | 5000 |

**Employment effects:**

| | |
|---|---|
| **Announcement Date:** | 2005-06-10 |
| **Planned job reductions (min.):** | |
| **Planned job reductions (max.):** | |
| **Type of restructuring:** | Business expansion |
| **Employment effect start:** | 2005-09-01 |
| **Employment effect timeline:** | 2008-01-01 |
| **Direct dismissals:** | |
| **Other job reduction measures:** | |
| **Planned job creation:** | 320 |

**Additional information:**

AUDI AG chose the Hungarian city of Györ as its new production location in November 1992. The new engine plant was officially opened less than two years later. A workforce of around 4,900 was employed there at the start of 2001. The Györ site is a duty-free area, permitting the flexible delivery and collection of production components and engines. A large range of Audi engines is now produced in Györ. In June 2005, Audi announced the building of a new plant in Győr. The investment will create 100 jobs in September 2005. The company undertook to employ 320 new employees by 2008.

**Sources:**

Világgazdaság, 2005-06-10
Népszabadság, 2005-06-11
Napi Gazdaság, 2020-05-06
www.audi.com

**Links:**

**Company:** Bakony Művek

| | | |
|---|---|---|
| **Geographic location:** | **Country:** | Hungary |
| | **Region:** | ALFOLD ES ESZAK ; Eszak-Alfold |
| | **Affected unit(s):** | Hajdúnánás |

| | | |
|---|---|---|
| **Company:** | **Group :** | |
| | **Sector :** | Motor - Manufacture of parts and accessories for motor vehicles and their engines |
| | **Number employed:** | 736 |

| | | |
|---|---|---|
| **Employment effects:** | **Announcement Date:** | 2005-05-01 |
| | **Planned job reductions (min.):** | |
| | **Planned job reductions (max.):** | |
| | **Type of restructuring:** | Business expansion |
| | **Employment effect start:** | 2005-05-01 |
| | **Employment effect timeline:** | |
| | **Direct dismissals:** | |
| | **Other job reduction measures:** | |
| | **Planned job creation:** | 350 |

**Additional information:**

The automotive parts manufacturer Bakony Művek built a new plant in Hajdunanas (eastern Hungary) in a greenfield investment. In the longer term, the latter is planned to become the centre of white goods parts manufacturing, while the Veszprem factory will focus on car parts. 215 employees started working in the new factory building in May 2005. This number is to rise to 350 after the second phase. The factory manufactures parts for refrigerators for Electrolux. In the first year, parts for 300,000 refrigerators are to be made, with the number rising to 1 million by 2007.

**Sources:**

Napi Gazdaság, 2005-05-01
Appliance Magazine, 2005-04-19

**Links:**

http://www.appliancemagazine.com/news.php?article=6507&zone=0&first=1

**Company:** Le Bélier

| | |
|---|---|
| **Geographic location:** | |
| **Country:** | Hungary |
| **Region:** | ALFOLD ES ESZAK ; Eszak-Alfold |
| **Affected unit(s):** | Szolnok |

| | |
|---|---|
| **Company:** | |
| **Group :** | Le Bélier |
| **Sector :** | Motor - Manufacture of parts and accessories for motor vehicles and their engines |
| **Number employed:** | 250 |

| | |
|---|---|
| **Employment effects:** | |
| **Announcement Date:** | 2005-05-06 |
| **Planned job reductions (min.):** | |
| **Planned job reductions (max.):** | |
| **Type of restructuring:** | Business expansion |
| **Employment effect start:** | 2005-05-06 |
| **Employment effect timeline:** | |
| **Direct dismissals:** | |
| **Other job reduction measures:** | |
| **Planned job creation:** | 200 |

**Additional information:** Le Bélier is specialized in safety related parts in cast aluminium for the automotive industry. The company employs 2,700 people in 6 countries and established two plants in Hungary with 1,270 employees. The new investment in Szolnok will create 100 jobs. The company undertook to employ 400 to 450 people in the long run as the part of the agreement with the government of Szolnok.

**Sources:** Világgazdaság, 2005-05-06

**Links:**

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