



VOLKSWAGEN MULLS *Factory Closures in* **GERMANY**



Situation Overview

Volkswagen is currently experiencing significant operational challenges in Germany. The company is considering closing several of its 10 assembly and parts plants due to increasing production costs, heightened competition from Chinese and electric vehicle (EV) manufacturers, and declining demand in the European market. Layoffs are expected, and unions are gearing up to resist these potential cuts.



Key Developments

- Volkswagen has ended its job security scheme, effective from early 2025, leading to the expectation of mass layoffs.
- Union leaders, especially from IG Metall, are preparing for confrontational negotiations to safeguard jobs and prevent plant closures.
- The German government has expressed concerns, but Chancellor Olaf Scholz has stated that the decision ultimately rests with Volkswagen and its employees.
- The situation primarily affects Volkswagen's German assembly plants, especially those in Lower Saxony and Wolfsburg. There may also be broader repercussions throughout the European automobile market.



Parties Involved

- Volkswagen Corporate: Senior management, led by CEO Oliver Blume, is driving the restructuring, cost-cutting, and transition towards electric vehicles.
- IG Metall Union: Representing Volkswagen's workforce, advocating for job security, and resisting the proposed plant closures.
- German Government: Engaging in discussions with Volkswagen but not intervening directly in the company's decision-making process.



Actions Taken

- Volkswagen has initiated cost-cutting measures aimed at saving €10 billion by 2026.
- The company has terminated key labor agreements, including those that guaranteed job security and permanent positions for apprentices.
- Ongoing discussions between Volkswagen and the unions are in progress, with a decision on plant closures and layoffs expected by early 2025.
- Temporary financial relief through initial cost-cutting and restructuring measures.
- Official communication to employees about the end of job security schemes.



Key Findings

- Volkswagen is navigating a rapidly evolving automotive market, marked by a decline in demand for internal combustion engine vehicles and growing competition from Chinese EV manufacturers.
- The European automobile market currently faces a shortfall of 500,000 cars annually, adding to Volkswagen's financial strain.
- Tensions between Volkswagen management and IG Metall are escalating, with the possibility of labor strikes looming on the horizon.



Threats & Risks

- Union resistance could lead to large-scale industrial action, severely disrupting Volkswagen's production capabilities.
- Closing German factories could set a precedent, negatively affecting Volkswagen's reputation and workforce morale, with broader political and economic consequences in Germany.
- The diesel emissions scandal continues to loom over Volkswagen, adding legal and regulatory pressure.
- If negotiations with unions fail, Volkswagen may face prolonged labor disputes, slowing the company's transition to EV production.
- Continued competition from EV manufacturers and further reduction in European demand could lead to additional cost-cutting measures.

Logistics & Support



Supplies and Resources:

- Volkswagen's shift to EV production has created a strain on existing resources, particularly in terms of EV batteries and new technology development.
- Supplies related to internal combustion engine production are being phased out.

Transport and Communication:

- No significant transport or communication disruptions have been reported at Volkswagen's existing German plants.
- Communications between corporate leadership and workforce remain strained, particularly regarding transparency in the restructuring process.

Challenges:

- Volkswagen's older factories are not fully optimized for EV production, requiring significant investment or closure.
- Supply chain difficulties related to EV components continue to pose logistical challenges.



Impact Assessment

Human resource impact:

- Thousands of employees face the prospect of layoffs as early as 2025.
- Workers' morale is reported to be low, with a heightened risk of workforce turnover.

Material Damage:

- No material damage reported. However, the potential closure of German plants represents a significant threat to Volkswagen's production infrastructure.

Future Actions



Immediate Priorities:

- Continue negotiations with IG Metall to find common ground and minimize workforce disruptions.
- Finalize decisions on plant closures and communicate the specifics to employees by the end of 2024.
- Measures such as production halts at certain plants has to be taken to deal with the decline in sales.
- Intensify focus on the EV transition, reallocating resources to enhance production and competitiveness in the global market.

Long-term Strategies:

- Strengthen Volkswagen's presence in the EV market by increasing investment in technology and infrastructure.
- Explore alternative cost-saving measures that minimize impact on the workforce, potentially re-skilling employees for EV production roles.
- Address global market competition, particularly from Chinese automakers, by developing competitive pricing and product strategies.

Recommendations

For Volkswagen Leadership:

- Consider maintaining key facilities in Germany as EV production hubs, rather than shuttering them, to avoid mass layoffs and protect company reputation.
- Engage in more transparent communication with unions to prevent large-scale labor strikes, which could severely disrupt operations.
- Develop a comprehensive EV strategy that aligns with European environmental regulations while mitigating cost pressures.

For German Government:

- Facilitate dialogue between Volkswagen management and unions, with the aim of preserving as many jobs as possible while supporting the company's necessary transition.
- Consider offering incentives or subsidies to Volkswagen for EV production to maintain Germany's status as a global automobile manufacturing leader.



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