Commissioner Schmit
Jobs and Social Rights

Skype call with Gunnar Kilian, Member of the Board of Management of the VW Group responsible for Human Resources

15 May 2020, 10:00 – 10:45

Contact of the organiser: [redacted]

Member of Cabinet in charge: [redacted] Briefing coordination: [redacted]	Main contributors: *Background on the industry (transition and HR):* [redacted]

Scene setter

The video call was requested by Gunnar Kilian, Member of the Board of Management of the Volkswagen (VW) Group, responsible for human resources. Mr Kilian oversees the current workforce transition of the company, in particular on electro mobility and digitalisation. The VW Group, one of the largest employers in the automotive industry, counts with a total of 671,200 employees worldwide and 63 plants in the EU 27.

Mr Kilian would like to provide you with an insight of the current developments in the Volkswagen Group and discuss the political framework at the European level they deem necessary to successfully manage the transformation of the automotive industry. Volkswagen is known for training its workforce actively, notably in view of the production of electric cars. In this process, automation makes mechanical engineers redundant, when new skills are on the contrary required (e.g. software and electrical engineering).

In his capacity as Board Member responsible for Human Resources, Mr Kilian may touch on the situation of the workforce in the context of the Covid-19 crisis – a third of VW's 300,000 workers in Germany was put on reduced-time working.

You will have the opportunity to present the EU action to accompany the workforce of the industry, and to recall upcoming agenda on upskilling and reskilling. You could also mention your exchanges with ACEA and CLEPA and the efforts you agreed to pursue together on skills development.

The Volkswagen Group is a member of ACEA, the European Automobile Manufacturers' Association. It was represented by Eric-Mark Huitema at the video call you had with ACEA and CLEPA on Wednesday 7 May.

FYI: On 5th May, Chancellor Merkel organised an "Autogipfel" with the German automotive industry. A working group was set up to discuss the issue of schemes of incentives to buy cars ("Kaufprämien"), further discussions will take place in June. The debate leading up to the meeting was influenced by a statement from the boss of VW, Herbert Diess, asking for state aid and at the same time insisting on paying dividends to shareholders, which was received very negatively. The debate about "Kaufprämien" is seen in the light of which cars can be supported because of the protection of the environment. This is also related to the past "Abwrackprämien" which is often mentioned as a big gift to the automotive industry, not helping the environment as was promised.

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- Paper of the four associations representing the EU automotive sector: 25 Action for a successful restart of the EU automotive sector (6 May)
- Automotive Industry Code of Business Conduct in view of COVID-19 (15 April)

LTTs

[Employment-related issues]

- Acknowledge the difficult economic and social outlook: the unemployment rate is increasing in all Member States and is set to rise from 6.7% in 2019 to 9% in 2020.
- Present the EU action, in particular SURE, which will allow to preserve employment, income and human capital (skilled workforce) in Europe. It supports the EU resilience (e.g. compared to US). [Volkswagen has put one third of its 300,000 workers in Germany on reduced-time work.]
- Recall that in a number of Member States (including e.g. Belgium, Germany, Spain, France, Italy, Luxembourg), apprentices are also eligible for support under short-time work schemes, so SURE could possibly also applies to them, provided the MS in question is applying for support through SURE.
- Recall the importance of the sector for EU employment – 14 million workers.
- Acknowledge the need for liquidity/cash-flow of the industry. Remind the European Council, EIB and ECB measures. Volkswagen has enough liquidity to hold on for 8 months.
- Remind the support of the Commission for a coordinated recovery at EU scale, as the automotive industry strongly depends on Single Market for its value chain.
- Inquire as to how the fall in demand, potential difficulties with sourcing in the supply chain and the costs already occurred in the shutdown will have on VW plans to transition to electromobility.
- Take note of the Action Plan that ACEA and other Associations published on 6 May to help this strategic sector recover *(see Annex 2).*

[Work organisation and working conditions]

- Acknowledge that telework is hardly feasible in the automotive industry. Recovery should come soon, and needs to be coordinated to better rebuild value chains.
- Highlight the utmost importance for workers, companies, and the society at large to ensure highest standards of health and safety in the exit phase.
- Welcome the efforts of the industry to comply with health and safety measures, as per the statement of Andreas Tostmann, Board Member of Volkswagen *(see background notes) and ensure even implementation of health and safety measures to maintain a level playing filed.*
- Recall the guidance of the European Agency for Safety and Health at Work (24 April).
- Take note of the call of the industry to have "harmonised guidance on health and safety precautions for the workplace", as per actions detailed by the industry *(see Annex 2)*. As you mentioned to CLEPA and ACEA, it is also a matter of level-playing field.

[Social dialogue]

- Welcome the Code of Business Conduct issued by ACEA-CLEPA, where the consultation of social partners features prominently *(see Annex 3)*.

- Remind that social partners at EU level have supported efforts to tackle the crisis, with positive results, proving once more the value of social dialogue.
- Highlight that social partners are key to build trust in companies and identify needs. Mention they must have a key role in the upskilling and the reskilling of the workforce.

[Skills]

- Recall the commitment of the Commission to the green and digital transitions, and the awareness that it is already driving the industry to deeply transform for the sake of our competitiveness. Emphasize that the Covid-19 crisis is accelerating the green and digital agendas (e.g. digitalisation to cope with travel restrictions).
- Acknowledge the need to further invest in skills: automation requires digital skills (and 43% of the EU population lack basic digital skills), the green transition requires specific skills too. In addition, the consumers' demand for greener technologies forces the sector to adapt.
- Underline the determination of the Commission to achieve efficient upskilling and reskilling of the workforce, notably with the upcoming Skills Agenda. The transition to electric cars (10% to 50% of the fleet by 2030) is the opportunity to upskill workers and train them to new technologies.
- Welcome the substantial investments announced by VW, in particular in the Zwickau plant in Saxony - no less than 13.000 days of training since 2018 in reconverting its site. This will be the biggest electric vehicle factory in Europe. We also welcome the announcement of the construction of the VW battery cells factory in Salzgitter.
- Recall the Skills Agenda will also be strongly anchored in the new Industrial Strategy and SME strategies, which have a renewed focus on innovation, investment and skills, to develop new production processes and create quality jobs.
- Recall the commitment of the Commission to mobilise investments via the European Social Fund and also the Social Investment and Skills Window of the upcoming InvestEU programme.
- Insist on the need to build bridges between tertiary education and the industry: in the German automotive industry, the share of university graduates will increase from 39% to 49% in 2030, due to automation and increase of jobs in R&D and design.
- Mention Vocational Education and training as an area of work for the Commission, and an important topic for the car industry – the Commission will work on digital skills to support jo transition, also in the context of the recovery.
- Mention also the contribution of Erasmus+: almost 500 projects sent apprentices and students in the automotive trade to practical work placements in another EU country.
- Recall that the Commission will propose to launch a European Pact for Skills to help and support Member States, businesses and the workforce. Invite VW to join forces with other key players from the sector.
- Remind of the ongoing work with business and sectoral associations (ERT, Business Europe, ACEA etc.) as well as with two relevant blueprints on skills in the automotive and battery sectors (DRIVES & ALBATTS), to examine ways we can support specifically the automotive industry.

Defensives

Investments in OSH beyond legal minimum requirements should not be promoted now, in order to not pose additional burden on the automotive sector when dealing with the consequences COVID-19 crisis.

- Investing in OSH is now more important than ever. It would help both, economic recovery as well as public health and continuity of essential services.
- Besides economic reasons (the return on OSH investment is 2 euros for every euro spent), a high standard of OSH contributes to contain and manage COVID-19 better, among others by:
  - avoiding spreading the disease via workplaces to the public by integrating COVID-19 measures into regular OSH risk assessments.
  - contributing to the continuity of essential services for businesses and the society by lowering accident and occupational disease rates for the supply of essential transport equipment (see background for fatal accident rates in the manufacturing and other sectors).

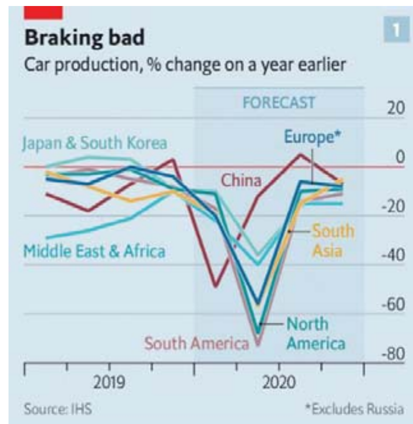
Large companies such as the ones in the automotive industry are big employers. Why can the CRII not provide working capital support also to large enterprises?

- The focus should be on small and medium sized enterprises as these have much less buffer capacity to survive the crisis and the disruption of production. They are also less likely to be able to borrow from financial institutions or receive support from national governments.
- Large enterprises are certainly important but their financing needs go way beyond the total amount of support available in our Funds. This is why we need to focus our efforts where it is needed the most and where we can make a difference.

Background

A) First consequence of the Covid-19 outbreak on the industry and Volskwagen

March is usually the busiest month in the year for the automotive industry. However, in March 2020 new car registrations compared to March 2019 fell by 85% in Italy, 72% in France and 69% in Spain. 40% of German production plants are now closed.
EU-wide production losses from factory shutdowns amount to 1.23 million vehicles so far, with some 1.11 million workers affected, not including the supply chain, out of a total of 2,6 million direct manufacturing jobs in the EU auto sector. The wider sector provides jobs for 13.8 million people across the European Union and contributes around 7% of EU GDP.



The Economist

Germany, Europe's biggest automotive producer, is predicted to have to face up to 100.000 job-cuts due to the pandemic.
Employers are expressing signs of anxiety. In a recent survey, 83% of European-based businesses in the global automotive supply chain are either 'concerned' or 'very concerned' about the impact on supplier operations and business outlook, with the biggest concerns being 'weakness in demand' and the 'availability of raw material'.

The Economist

On 30 April, **VW** announced that sales revenue from January to March fell to around €19 billion (-11.9 percent). Operating profit decreased by 47.7% but remains positive at €481 million. Sales were extremely resilient in China. According to Ralf Brandstätter, COO, "After a solid start to the year, the global pandemic severely impacted our business as the quarter progressed. Our current focus is therefore ensuring liquidity. We are reviewing all our projects to reassess their importance to our short-term needs. However, this will have no impact on strategic projects such as the new ID.3 [the new electric vehicle of Volkswagen]."

The company has put almost a third of its 300,000 workers in Germany on reduced hours, but began reopening plants on 20 April (Slovakian, then Belgium, Spain, Germany, Hungary, etc.). Andreas Tostmann, Board Member of the Volkswagen brand responsible for Production and Logistics, said: "the health of our employees has the highest priority. We are providing safe workplaces and the maximum possible level of health protection with a 100-point plan. In full awareness of our responsibility, we are ensuring that the economy regains momentum and cars once again leave the plants and reach our dealers and customers."

In Germany, Zwickau plant was one of the first to reopen in order to relaunch the production of the all-electric ID.3 vehicle – first sales should take place in June 2020. Volkswagen fears indeed to have to face fines in the billions if they do not meet CO2 targets at the end of 2020.

According to estimates, Volkswagen would have 8 months of liquidity in case the crisis lasts.

B) Impact of the transition of the EU Automotive Industry on the workforce and Volkswagen's policy

The sector is facing an unprecedented set of challenges as it moves towards a new era of smart and clean mobility which is requiring substantial and sustained investment into new emerging technologies such as; batteries, cyber security and automated & connected mobility. With increasing global competition (especially from China), this investment is essential if Europe is to retain its place as a global centre of automotive innovation and manufacturing.

In November 2019, **VW** announced a €60 billion package of investment to create the car of the future - €33 billion in electrification & €27 billion in hybridisation and digitalisation.

However, this transition will have an impact on the size and skill mix of the labour force. Alternative engines (such as electric and hydrogen) are less labour intensive than conventional combustion engines as they are less complex and there is normally a higher share of automation in their production. However, while there is expected to be a substantial fall in demand in traditional skills such as mechanical engineers, this could be offset (at least partially) by an increase in demand in areas such as software and electrical engineering. This is certainly the case for **VW** but the company has also flagged a need for more computer scientists, natural scientists, psychologists (human-machine interface) and mathematicians.

With respect to electric vehicle production and reskilling of workers, VW seems to be committed still to provide its workers with the skills needed for the shift to e-mobility despite the crisis. This includes plans to train 8000 employees at its new electric vehicle plant in Zwickau of which 2,000 have already passed through their e-mobility training centre.

C) Your interactions with the industry

At your meeting with CLEPA and ACEA on 7 May, you committed to work on upskilling and reskilling, and to boost the development of digital skills. You proposed to work with the industry to reflect these needs in the Skills Agenda. You welcome the companies' efforts on health and safety and advocated for swift and decisive actions in the weeks to come to support the industry. You also mentioned you would like to partner up with CLEPA and ACEA in the framework of the upcoming Pact for Skills.

On Friday 8 May, VDMA shared with your team its recommendations *(see Annex 1)* on the steps to take during and after the crisis. VDMA represents around 3300 German and European companies in the mechanical and plant engineering sector – including Volkswagen. VDMA proposes the following 5-point plan for an efficient and sustainable recovery strategy. Three are relevant to your portfolio (SURE, health and safety, Posting of Workers Directive):

1. **Sending a signal of solidarity with financial resources – including an ambitious EU budget.** In the name of subsidiarity, VDMA however advised to limit the application of SURE to the impact of this crisis only.
2. **Protecting and further developing the single market.** VDMA calls for the coordination and harmonisation of health and safety measures at EU level to prevent the epidemic to continue spreading, the reopening of borders, an EU-wide Covid-19

tracking app, and measures to stimulate the Single Market, including via public procurement.

3. **Staying on course and stabilising, but taking the pressure off companies.** VDMA calls for a revision of the framework of the Posting of Workers Directive. While committed to the Green Deal, VDMA advocates for market-based incentives, and continued EU action for international CO2 pricing. To provide relief to companies, it also calls to delay measures such as the SCIP database, the new taxonomy for 'Sustainable Finance' and the revision of the CSR Directive.
4. **Unlocking Europe's strengths: investments, technology and cooperation.** VDMA calls to use technologies to drive digitalisation (e.g. platforms and data exchange). It also argues in favour of liquidity assistance to companies and a framework for sustainable transformation.
5. **Creating resilient ecosystems – through competition, favourable conditions, sound financial policy and free trade.** VDMA claims that competitiveness, a sound budgetary policy and the autonomy of the industry to reorganise the value creation chains will allow to drive the industry forward.

D) Contacts between the Commission services and the industry

An almost daily dialogue is underway between the European Commission on the one hand and the automotive industry representatives and major original equipment manufacturers (OEMs) on the other.

In the framework of the Covid-19 Clearing House, which has been set up to facilitate the identification of available supplies of medical equipment and their increased production and dispatch, the Commission (DG SANTE and DG GROW) have organised joint meetings with the automotive industry and the health industry (MedTech, COCIR) to help the ramp-up of ventilators' production.

The automotive industry has expressed the below four major urgent needs for the recovery. The first three were presented to you by Henrik Henriksson, ACEA's Charmain of the Commercial Vehicle Board, at the conference call with CLEPA-ACEA.

- Targeted measures to **stimulate market demand for all vehicle categories** (new registrations plummeted in March (from -37% in Germany to -85% in Italy). For 2020, Moody's estimates that sales will plunge 21% in Western Europe. Carmakers fear a drop of sales until Q2 2021, as consumers tend to postpone their purchases as vehicles are not a basic commodity.
- **Time to catch up with type approval and registration activities** due the stand still or limitation of activities in this respect by the national authorities. Covid-19 crisis has disrupted technically the type approval of new vehicles by national authorities, meaning they cannot be sold. Similarly, businesses and customers cannot use their new vehicles because registration authorities cannot grant registrations.
- **Investments in recharging and re-fuelling infrastructures**. Such infrastructures will indeed be necessary to secure the sales of electric vehicles and to support the shift to a cleaner mobility planned by the European Green Deal.
- To **define a coordinated strategy to safely relaunch vehicle production (and sales) as soon as possible**. Lack of coordination could indeed lead to major bottlenecks as the car industry relies for 45.3% of its total production on cross-border

value chain within the Single Market. Without coordination between EU carmakers and suppliers, new plant closures may happen due to lack of availability of components (this situation currently happens in Japan for example).

On 6 May, ACEA, and other related industry associations released a list of 25 Actions *(see Annex 2)* to help the sector recover, including:

- Support up- and re-skilling of the labour force
- Rapidly establish a sectoral Skills Pact for the automotive sector
- Reflect "Just Transition" and the Covid-19 recovery in the Skills Agenda
- Issue harmonised guidance on health and safety precautions for the workplace
- Grant uniform exemptions for cross-border commuting and necessary travel

E) Background on infringement case concerning penalties against Volkswagen for the use of defeat devices (Case 2016/2180)

[redacted]

In the meantime, in a procedure for a preliminary ruling, brought forward by the Paris Tribunal of first instance (C-693/18), the Advocate General provided last week (30 April 2020) her opinion on that case. She concluded that the software Volkswagen used was a defeat device and that is was illegal under the EU type approval rules. The final decision on that case is pending.

F) Automotive skills and occupational profiles of the future

The industry will increasingly need highly skilled people, and staff that is trained in new emerging occupations. It is estimated that about 300 000 jobs will be affected in the coming years, primarily due to the shift to the production of electric vehicles. Workers will also need to acquire technical skills in areas such as big data, software development, mechatronics, material sciences, artificial intelligence. The estimations are, that 5% of workforce will need to be upskilled every year along the value chain, resulting in 700 000 employees per year. The key questions for the future are which new profiles exactly will emerge and how to attract and retain new highly skilled staff. Apart from changing occupational profiles, certain job profiles will also completely disappear.

The Erasmus-funded Blueprint project DRIVES (close to €4 million EU grant) for the automotive sector has demonstrated that in the automotive sector, moving from combustion engines to electric power trains with batteries will require new skills. Workers need to upskill to master clean, smart and safe manufacturing technologies. With battery-powered and networked cars, new occupations with specific skill sets are also emerging, for example:

- Automotive data analyst
- Powertrain engineer
- Electrification engineer
- Automotive technician
- Innovation manager
- Design engineer
- Cybersecurity engineer

As for skills, the sector gives priority to technical automotive-specific skills in the areas of:

- big data analysis
- software development
- technical knowledge
- digital skills
- artificial intelligence

Soft skills also came out as important, and the automotive sector ranked "learn-ability" under the top ten soft skills; others are for example:

- cognitive adaptability
- working together
- critical thinking
- creative problem solving

In January this year, a second Blueprint pilot, ALBATTS, looking specifically at the battery sector, was launched. This has also been supplemented by a Commission-funded project on identifying best practices for supporting automotive SMEs and their upskilling needs which is due to report this summer.

Biography

Gunnar Killian is a Member of the Board of Management of Volkswagen AG with functional responsibility for 'Human Resources' since April 2018.

He was born January 31, 1975 in Westerland/Sylt and has worked for the Volkswagen Group since 2000. He started his professional career in 1995 as an intern with a newspaper, subsequently holding various editorial posts before joining Volkswagen AG as a public relations officer in 2000.

From 2003, Kilian ran the office of a member of the German Bundestag (Hans-Jürgen Uhl – SPD), and returned to Volkswagen AG in 2006 as press spokesperson for the Group Works Council. He worked in the Salzburg office of the Chairman of the Volkswagen AG Supervisory Board from 2012 before returning to Wolfsburg in 2013 to take up the post of Secretary-General and General Manager of the Group Works Council.

Kilian also held Supervisory Board mandates at Wolfsburg AG, Porsche Holding Stuttgart GmbH, Volkswagen Truck & Bus GmbH, MAN Diesel & Turbo SE, Allianz für die Region GmbH as well as Volkswagen Vertriebsbetreuungsgesellschaft and MOIA GmbH.

Kilian has engaged in voluntary work for many years, for example as Chairman of the Volkswagen Belegschaftsstiftung (Volkswagen Employee Foundation) and also as a member of the Stiftungsrat (Board of Trustees) of the International Youth Meeting Center in Auschwitz.