Parts supplier threatens bankruptcy, plant closings

Delphi demands unprecedented wage cuts from US auto workers

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Delphi Corp., the largest auto parts supplier in the world, is using the threat of bankruptcy and the closing or downsizing of as many as 25 plants to exact huge wage and benefit cuts from its 24,000 United Auto Workers (UAW) employees in the US.

The move by Delphi follows less than a month after the bankruptcy announcements by Northwest Airlines and Delta Air Lines and their proposals for massive job and wage cuts, and the dumping of their pension obligations. The threatened bankruptcy by the automaker is widely seen as the beginning of a huge restructuring of the US auto industry, which has already seen the destruction of hundreds of thousands of jobs in the last quarter century.

Delphi, which has annual sales of $28 billion and 185,000 workers worldwide, including 50,000 in the US, posted a net loss of $741 million in the first six months of this year and $4.8 billion last year. Dependent on its former parent company, General Motors, for more than half its sales, Delphi has been hard hit by the declining market share of US automakers and rising fuel prices. The company, whose stocks have been downgraded to junk status, is also being investigated by the Security and Exchange Commission and sued by several investor groups for falsifying profit reports.

According to a memo released by the UAW, Delphi executives are demanding as much as a 63 percent wage cut for production workers, from $26.35 an hour to as low as $10.00 an hour. Skilled workers' wages would fall from $30.77 an hour to $19.00. The company is also demanding the elimination of all future cost-of-living allowances.

Delphi wants to eliminate up to five paid holidays and two weeks of vacation a year, force workers to pay 27 percent of their health-care costs versus 7 percent currently, and cut pensions to less than $1,500 per month from $3,000 at present.

The takeaways would result in a wage and benefits package of $16 to $18 an hour, instead of an estimated $65 per hour. This could result in a minimum yearly income of $20,000 before taxes, a scale that would leave many UAW members unable to afford the vehicles they helped build.

The company is also demanding a free hand to consolidate, phase out or sell the majority of its plants over the next three years, while eliminating the Jobs Bank program that currently provides benefits to 4,000 idled workers and reducing supplemental unemployment benefits.

Delphi CEO Robert Miller has threatened to trigger the largest industrial bankruptcy in US history unless UAW members accept these demands and General Motors, which spun off the parts suppler in 1999, agrees to a financial bailout of the company. GM, whose board of directors met earlier in the week, has not yet indicated whether it will go ahead with the bailout, which could cost $6 billion. Under a previous agreement with the UAW, GM would have to pay for the medical and pension benefits of Delphi workers if the company declared bankruptcy before 2007.

Miller was brought in by the company three months ago as a "turn-around specialist." He was a Chrysler executive during the automaker's 1979-1980 bailout. More recently, he was at Bethlehem Steel and auto parts maker Federal Mogul, where the companies used the bankruptcy courts to escape their pension obligations and blackmail workers into accepting concessions.

From the moment he stepped in, Miller has threatened to declare bankruptcy if the UAW did not accede to massive cutbacks. He has a set an October 17 deadline to file for Chapter 11, just ahead of changes to federal bankruptcy law, but a filing could take place as early as Sunday.

"Bankruptcy is nothing but a process," Miller told the *New York Times*. "It's an organized way to deal with your issues." While saying he hoped a last-minute deal would make the filing unnecessary, Miller told the *Detroit News*, "[I]f we do, we'll be filing because we have a UAW level of labor cost structures in our plants."

As in the Northwest and Delphi bankruptcies, top executives at Delphi have negotiated large severance packages for themselves. According to a filing made with the SEC Friday, 21 of the company's top officers are guaranteed 18 months of salary and 18 months of bonuses after they leave the company.

Delphi's former CEO J.T. Battenberg collected $21 million over the last five years before being forced out earlier this year, and Miller was reportedly given a $3 million signing bonus, along with his $1.5 million salary. At the same time, the company has short-changed its pension fund by at least $11 billion.

The wage-cutting attack on the Delphi workers has been universally praised by Wall Street investors, who see it as the beginning of a drive to drastically reduce the jobs and living standards of US autoworkers, not just in the auto parts sector, but at the large assembly plants owned by General Motors, Ford and DaimlerChrysler.

"This is a sign that the industry will have to undergo a long-awaited restructuring," said John A. Casea, an analyst at Merrill Lynch. "In some ways the auto industry is the last bastion of the traditional postwar labor movement in the United States. There's really no other industry in the US that has escaped the effects of globalization and it is finally catching up with Detroit.

"The fact is, companies in the United States can't afford to pay people $70 an hour in wages and benefits to make auto parts when they can be made in Mexico, China and Taiwan for a fraction of that."

Brian Johnson, an analyst at Sanford C. Bernstein, said a Delphi filing would allow the auto industry to impose the kinds of wage and benefit cuts it should have made decades ago. "For Delphi to go the way of bankruptcy is simply getting the wages and benefits to where the market will allow them, in a painful way," Johnson said. "It's a choice a consumer has between driving a Hyundai Sonata with satellite radio as a standard option versus driving a Chevrolet Malibu which has social welfare as standard equipment."

The green light for ripping up the gains won by American auto workers over decades of struggle has been provided by the UAW itself. Throughout the 1980s, the UAW betrayed strike after strike in the auto parts industry, allowing suppliers to drastically reduce wages. In 1980, an auto parts worker earned 15 percent lower wages than a worker at a Big Three assembly plant. By 2000, the differential had risen to 31 percent.

The UAW gave its blessing to this process in order to lower costs for GM, Ford and Chrysler and boost the competitiveness of the US auto industry against its Japanese and German rivals.

By the time GM and Ford spun off their parts operations in the late 1990s, the bulk of US auto parts were being produced at non-union plants or in lower-wage countries. This made a drastic reduction of wages at the new spin-offs—Delphi and Visteon—inevitable. Once again, the UAW paved the way, betraying a series of strikes by Delphi workers in Dayton, Ohio, and Flint, Michigan, on the eve of the sell-off. Last year, the UAW signed agreements guaranteeing lower wages for new hires.

There is no doubt the UAW is prepared to accept massive wage and benefit cuts for its members at Delphi. In an update to UAW members Thursday, the union's International Bargaining Team said Delphi's concession demands "will look better than the restructuring proposal it submits to the courts." The bargaining committee added, "It is clear that in one form or another, there is a restructuring of Delphi forthcoming and it will have a dramatic impact on UAW members."

UAW International President Ron Gettelfinger said the union "has made every effort" to keep Delphi out of bankruptcy, adding, "It's our hope that we can reach an agreement to do just that." He made no comments about the company's demands for a 60 percent wage cut and health-care and pension reductions.

Gettelfinger's anxiety about bankruptcy is motivated not by any desire to defend the jobs and living standards of the union's members, but chiefly to protect the financial base of the UAW bureaucracy. The UAW is involved in scores of labor-management structures, which provide it income, in exchange for cooperation in reducing costs, boosting productivity and suppressing resistance on the shop floor. These relations are threatened under bankruptcy proceedings, which would allow management to tear up all existing agreements.

The only question remaining is what terms the UAW will negotiate in return for its collaboration. A final deal between the three parties may have been delayed by the ongoing negotiations between the UAW and GM to reduce the automaker's health-care, pension and other "legacy" costs. Whatever deal is finally reached, however, one thing is certain: it will be at the expense of the jobs and living standards of thousands of workers.

Earlier in the year, the UAW agreed to at least 5,000 job cuts and other concessions to "save" Visteon—the parts company spun off by Ford in 2000—from bankruptcy. The deal, which involved a partial bailout by Ford, allowed Visteon to transfer 13 plants into a holding company controlled by Ford in order to sell or close them. Workers at plants sold to other suppliers were allowed to keep their current wages and benefits until the expiration of the UAW contract in 2007, when their new employers will be permitted to impose sweeping wage and benefit cuts.