Delphi outlines plant closings, wage-cutting in US bankruptcy filing

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In its filing before the Federal Bankruptcy Court Saturday, the US automotive parts giant Delphi Corporation outlined its plans to shut down or sell off dozens of plants in the US and Canada, destroy thousands of jobs and impose sweeping wage, health-care and pension cuts on its 33,000 union employees and 12,000 retirees.

Speaking to the *Wall Street Journal*, Delphi CEO Robert Miller said he will close or sell off a “substantial segment” of the company’s 45 factories and renegotiate the contracts and pension plans of Delphi’s workforce. The company had previously targeted 11 “underperforming” plants in the US for closure or sale.

The wave of plant closings will have a devastating effect on industrial towns like Flint and Saginaw, Michigan; Dayton, Ohio; Rochester, New York; Kokomo, Indiana, and dozens of others that have long suffered from the decline of the US auto industry.

Delphi informed the bankruptcy court that it would terminate health and life-insurance benefits for its retirees in mid-December. Under its union contracts, Delphi pays for the health-care costs of 109,400 active hourly workers, retirees and their families. According to Miller’s affidavit to the court, Delphi’s hourly pension, health-care and other retiree costs were underfunded by $10.4 billion at the end of 2004.

Delphi said its former parent company, General Motors, was responsible for the pension benefits being paid to retired Delphi workers, under the terms of the agreement made when GM spun off its parts division in 1999. There is widespread speculation that Miller also intends to dump the pension plan for current employees, as he did previously when he took Bethlehem Steel through bankruptcy proceedings.

Delphi asked Judge Arthur J. Gonzalez to set a two-month deadline for obtaining significant concessions from the United Auto Workers and other unions and retirees. Under Delphi’s proposed schedule, the company would make offers to its unions by October 21 and if no agreements are reached by December 16, the supplier would ask Gonzalez to set the process in motion to terminate the contracts and health-care benefits at a hearing on January 17.

Miller said the first six months of the Chapter 11 process will be dedicated to shaping Delphi’s labor costs. Last week, Delphi demanded that UAW workers accept 60 percent wage cuts to as little as $10 an hour for production workers, drastically reduced pension and health-care plans, and elimination of the “jobs bank” guaranteeing paychecks for 4,000 laid-off workers.

Miller said Saturday that those cuts are in line with what Delphi will ask for in Chapter 11. “What we laid out is what is required for us to have competitive costs at our factories going forward,” he said. “This company can’t compete unless we have substantial changes in our manufacturing footprint and our labor contract.” Well-experienced in using the bankruptcy courts to blackmail workers into accepting such concessions, Miller added, “If you can’t get an agreement, you go back to the court and ask it to reject the contract. Then it’s a free-for-all.”

Miller said the company would likely cut hourly wages to “more competitive” levels and is hoping to get cooperation from the UAW in coming months in determining a new wage. “The unions are being realistic,” said Miller. “They know life has to change and that we can’t go on as usual.”

The UAW has made it clear that it has no intention to mount any opposition to plant closings and massive wage and benefit cuts. Having long collaborated with the Big Three automakers—GM, Ford and

DaimlerChrysler—to keep labor costs low in the auto parts sector, the union issued a statement saying it was “deeply disappointed” with the filing. UAW President Ron Gettelfinger said the UAW had “been engaged in discussions with Delphi to craft a mutually agreeable approach to the company’s financial problems” and that it had made clear its willingness to “continue discussions and consider a wide range of options.”

At the same time as it is wrecking communities and slashing wages and pensions, Delphi said it wants to reward hundreds of top executives and managers who remain with the company through its financial reorganization with up to 10 percent of Delphi’s stock and bonuses that could be up to 250 percent of their annual salary.

Last week Delphi filed documents with the U.S. Securities and Exchange Commission that said it had improved the severance pay of 21 top managers if they lose their jobs during the bankruptcy. A spokesperson for the company said a more “competitive” package was needed to retain the best executives.

The bankruptcy filing has been universally hailed by Wall Street analysts who have complained that US autoworkers have enjoyed a “gilded age” of high wage and benefits because the auto bosses had failed to restructure their industry in the same way the steel companies and airlines had. This in an industry that has shed more than a quarter million jobs since the late 1970s and where top executives’ pay has risen 109 percent—not counting the millions more they have made in bonuses, stocks and other compensation—while workers’ real wages have stagnated.

Nevertheless, analysts point to the wages in Mexico and China as the benchmark for labor costs. Delphi employs nearly 70,000 workers in Mexico, where it is the largest private employer. Delphi workers, many of whom have worked there 20 years, earn between 500 and 700 pesos per week ($50-$70) plus bonuses of about 150 pesos ($15).

These wages, however, are not low enough. In recent years the company has closed several of its plants and laid off nearly 8,000 Mexican workers. Delphi has recently invested heavily in China, where auto parts workers earn about 90 cents an hour. Of the $650 million of components Delphi produced in China in 2003, the company shipped roughly 20 percent outside China, to North America and other destinations around the globe, and that is expected to grow significantly over the next five years.

Although GM could spend up to $12 billion in covering its obligations to Delphi, the number one automaker embraced the cost savings that would be realized through the slashing of wages and benefits. GM, which says it pays $2 billion more for parts from Delphi each year than for components made overseas, issued a statement saying, “A restructuring of Delphi through the Chapter 11 process provides GM with an opportunity to reduce or eliminate that purchase-price premium.”

It is clear that GM decided not to bail out Delphi and allowed it to proceed with the bankruptcy in order to sharply reduce labor costs throughout the auto industry, including from its own workforce. GM is currently negotiating with the UAW to reduce a $5.6 billion annual health-care bill, as well as other “legacy” costs, such as pensions.

In fact there is widespread speculation that GM may follow Delphi into the bankruptcy courts. Facing large financial obligations and possible supply disruptions from Delphi—its largest supplier—and already reeling from declining market share, high fuel prices and an investment rating of junk status, the automaker saw a sharp fall in its share value Monday. Bank of America increased its estimate of the likelihood that GM would file for bankruptcy to 30 percent.

Delphi CEO Miller hinted that GM and the other Big Three automakers might use the bankruptcy court to impose massive cuts on their workforces. If the Big Three automakers were unable to wrench sufficient concessions from their workers during negotiations, he said, it is a “very realistic” possibility that they too “will have to use the Chapter 11 process.”