US unions agree to impose cuts, run benefits program at auto-supplier Dana

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The United Auto Workers and United Steelworkers unions announced on Friday that they had reached a national framework agreement with bankrupt auto parts supplier Dana Corporation. The deal includes a plan for the unions to take responsibility for managing long-term disability coverage and retiree healthcare.

The agreement, which is projected to save Ohio-based Dana over $100 million a year, represents a new stage in the transformation of the trade unions in the US into private business entities directly responsible for imposing cuts on the membership that they nominally represent.

The UAW has been pushing for the auto companies to agree to shift responsibility for healthcare plans to the trade unions for several years, and the deal with Dana foreshadows much larger agreements with the auto giants. The deals (which establish Voluntary Employee Benefit Associations or VEBAs) involve the companies providing cash to cover part of existing obligations, while transferring management of the funds to the union bureaucracy.

In exchange for absolving the company of any obligation for the estimated $1.1 billion in unfunded long-term disability and retiree healthcare benefits, Dana has reportedly agreed to provide a one-time $700 million cash payment to the VEBA fund, along with an additional $80 million in stock after it leaves bankruptcy. The union-controlled fund would then be required to impose any cuts necessary to make up present and future deficits.

While smaller agreements to establish VEBAs have been set up in the past, according to a July 7 article in the *New York Times*, “The Dana deal is thought to be the first time the UAW has allowed a company to transfer its entire liability for retiree healthcare.”

By eliminating the $1.1 billion in unfunded liabilities with a $780 million payment into the VEBA, Dana is paying out at only about 71 cents on the dollar. This is lower than the previous standard set by a deal reached between the United Steelworkers and tire maker Goodyear in December 2006. Goodyear funded its liabilities at 83 cents on the dollar.

Even as it has negotiated a boondoggle for itself, the trade union bureaucracy agreed to additional cuts for workers. The deal reached Friday reportedly includes a four-year extension of existing union contracts, a new two-tier wage structure, and modifications of existing disability benefits. Complete details have not yet been released, and the agreement must still be ratified by the membership and approved by the bankruptcy court.

Agreement on the two-tier wage system is particularly significant because it will allow Dana to hire new workers at significantly lower rates than older workers. Eventually, the older workers will be pushed out as Dana moves to lay off employees.

The announcement at Dana comes only two weeks after the UAW agreed to a massive concessions contract at another auto parts supplier, Delphi. This included pay cuts of up to 50 percent, massive layoffs and cuts in health and retirement benefits. The union acceded to nearly all of the demands of Delphi.

Arrangements for managing benefit programs are particularly important for the union bureaucracy given the continued atrophy in the number of union members. Delphi announced on Saturday that, as a result of the cuts agreed by the union, it expects to employ as few as 2,300 UAW members by 2012, less than a tenth of what it employed in 2005.

Negotiations between the UAW and the Big Three (General Motors, Ford and Chrysler) begin on July 23, and the deals at Delphi and Dana provide an indication of what the UAW is prepared to accept. The automakers are expected to demand a two-tier wage system and benefit cuts as part of a plan to sharply reduce wages.

The UAW has been pushing for a VEBA agreement with the Big Three for years, and the automakers—particularly GM and Ford—are reportedly interested in discussing the possibilities of some arrangement during this round of negotiations. According to the *Detroit News*, the auto companies are looking to pay only 50 to 70 cents on the dollar to unload their unfunded liabilities of over $100 billion.

In an article published on July 6, the *Detroit News* cited JPMorgan analyst Himanshu Patel noting the enormous cost savings for the auto companies that would result from such an arrangement. “At 60 cents on the dollar,” the newspaper reported, “Patel says Ford would see the most immediate relief, with earnings improving by 17 cents per share in 2008 and cash flow increasing by $600 million. Earnings would further improve by 25 cents per share in 2010, with Ford’s cash flow up by nearly $1 billion.” Similar benefits would accrue to GM.

For the union bureaucracy, these arrangements make available a large supply of cash to top officials. Patel alluded to this fact, noting hopefully, “We think the UAW leadership will see the benefits of becoming an asset manager.” These “benefits” would come at the direct expense of the workers that the union supposedly represents.

The *Detroit News* remarked that, if a deal with the Big Three is reached, “The UAW would become one of the largest healthcare providers in the nation. It would also become the manager of one of the country’s largest private investment funds.”

The deal with Dana also highlights the growing collaboration between the trade union bureaucracy and various private equity groups that are looking to buy up the auto suppliers and the auto companies themselves. These companies specialize in cutting costs by slashing wages and downsizing operations.

New York-based private equity firm Centerbridge has agreed to invest $500 million in Dana once it emerges from bankruptcy protection, and will end up owning about a quarter of the company. Centerbridge has also pledged to line up $250 million from outside investors. These funds will supply the necessary resources to cover the cash contribution to the UAW and USW-controlled VEBAs.

UAW President Ron Gettelfinger reserved special praise Centerbridge. “This settlement would not have been possible without the involvement of Centerbridge Partners,” he said in a statement released by the union. “They’re going to play a key role in the future of Dana, and we look forward to working with them to help this company succeed in the marketplace.”

Centerbridge began as an advisor to the UAW and USW before deciding to assume a role as investor in the company. The firm was part of an unsuccessful bid to buy Chrysler earlier this year.

This is not the first time the UAW has aligned itself with a private equity firm investing in the auto industry. When Cerberus Capital Partners announced a deal to buy auto giant Chrysler in May, Gettelfinger was quick to announce his support, only a month after denouncing firms such as Cerberus for seeking to “increase their wealth by stripping and flipping companies.”

The WSWS noted at the time, “Behind the union’s embrace of a firm notorious for realizing huge profits by slashing jobs and wages and selling off corporate assets are moves to offload the US auto makers’ retiree healthcare liabilities to a new UAW-controlled company. The union officials are looking to go into the healthcare business and enrich themselves by directly imposing massive cuts in benefits on their own members.” (See “Why the United Auto Workers supports Cerberus’ take-over of Chrysler”)