General Motors tells Wall Street: UAW deal will save billions

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In a conference call with Wall Street investors Monday morning, top General Motors executives provided details of the sweeping concessions agreed to by the United Auto Workers union in the new, four-year labor agreement reached last month.

For more than two weeks, GM officials had withheld public comment on the deal, while the UAW leadership campaigned to get it ratified on the basis of misinformation and lies. The agreement was ratified last week with a third of the members who cast ballots voting to reject.

General Motors CEO Rick Wagoner told investors that the agreement "introduces wage and benefit structures" that would help close its cost gap with the non-union factories operated by Toyota and other Asian and European carmakers in southern US states.

GM said US hourly labor costs would decline from $12.6 billion in 2006 to $10.1 billion this year, a reduction of 45 percent from what the company spent in 2003, when it last negotiated a contract with the UAW. Labor costs would continue to decline "significantly" from 2008 to 2011, GM officials said.

GM executives also told investors that the investments in US plants pledged by the company—the supposedly iron-clad job security provisions hailed by the UAW—were entirely contingent on market conditions.

GM Vice Chairman and Chief Financial Officer Fritz Henderson said that over the next four years the company could move 56,000, or 75 percent, of its current UAW workers into retirement. A large portion of these older, higher-paid workers would be replaced by so-called "non-core" workers earning total wages and benefits of $25.65 an hour, compared to about $78.21 for all costs now.

The non-core category would cover more than 16,000 future workers, including forklift drivers, material handlers and many other non-assembly line workers. In addition, the union allowed the company to expand the use of temporary workers and to outsource jobs, such as janitorial work.

While many workers hired at the lower-tier wage will be able to move into higher-wage jobs on the assembly line, they will not get defined-benefit pension plans or company-paid retiree health care benefits, the *Wall Street Journal* reported. Instead, such workers will receive a 401(k) retirement plan, which they pay into and which is subject to the vagaries of the stock market.

Bloomberg News reported that the deal also "modified' the Jobs Bank program, which pays laid off workers when jobs are not available in a plant. The protection will be capped at two years, and employees will lose pay and benefits if they refuse reassignment to a new job, the news agency reported. "If the new job is within 50 miles of their old one, they can refuse once. If it's farther, they can refuse four offers. Workers previously had no time limit on the payments or penalties for refusing a job," Bloomberg reported.

With the agreement in hand, GM could exceed expectations and surpass its current goal of cutting structural costs to 25 percent of total revenue, Henderson said during the conference call. "Now we have to sit down site by site," he said, referring to GM's plan of going to each plant and identifying how many people to eliminate or replace.

The cost savings GM realizes from expanded use of temporary workers and lower-wage permanent workers will come on top of an estimated $2.6 billion to $3.4 billion it expects to save by 2011 because of the UAW's agreement to shift GM's existing retiree health-care costs to a union-managed trust," the *Journal* wrote.

The trust—known as a voluntary employees beneficiary association, or VEBA—will reduce GM's health care obligations to former workers and their dependents by $47 billion. GM will still be responsible, at least for the time being, for another $17 billion owed to salaried employees and hourly workers who belong to other unions.

The UAW claimed in its contract highlights that GM had agreed to contribute 70 percent of the more than $50 billion it owed. This, UAW President Ron Gettelfinger claimed, would assure that the trust remained solvent, securing retiree benefits for 80 years.

This too was a lie. In reality, the company has dumped its obligations for mere pennies on the dollar, with much of the financing for the VEBA coming from the workers themselves.

The company is contributing only $2.5 billion in up-front cash, with another $5.6 billion pledged over the next 13 years. An initial payment of about $16 billion will come from an existing medical fund. Another $1.7 billion will be diverted from the pension funds. An additional $3.8 billion will come from money that would have been paid out in wage and cost-of-living increases to current workers, but was diverted into a smaller VEBA set up by GM and the UAW in 2005.

In addition, in 2008 the company will give the UAW a five-year note worth $4.4 billion, which could be converted into GM shares in the last six months of maturity or when the stock tops $48. If converted, the UAW could control 190 million shares, or about 16 percent of GM stock, Henderson said.

This would make the union one of the largest shareholders of GM stock, giving the UAW a direct financial incentive to help GM slash labor costs and drive up the exploitation of union members in the factories.

With the trust under-funded from the beginning and the probability that rising health care costs will outstrip any gains the trust realizes on the stock market, the UAW will be responsible to make up any deficit by cutting health care benefits to retirees and imposing future wage diversions on current auto workers.

GM said the VEBA funding assumed the new UAW-run trust would achieve asset returns of 9 percent annually, and that yearly health care costs would increase by 5 percent, Reuters reported. But Morgan Keegan's Pete Hastings told the news agency that those assumptions could be hard to meet, leaving the UAW facing a future shortfall. Health care costs have been rising at some 10 percent in the United States in recent years.

GM has promised to pay up to $1.5 billion in backstop funding to the VEBA, but told investors that the new contract takes the issue off the table for future negotiation. "The agreement is permanent," Henderson said. The new contract prevents the UAW from negotiating to increase GM's funding for the VEBA or make any other payments to provide retiree medical benefits.