Cost-cutting yields surging profits for Ford

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Ford Motor Co. earlier this week announced third-quarter profits of $1.7 billion, up 68 percent from a year ago. Ford's sixth straight quarterly profit—which beat analysts' estimates—was attained chiefly through a brutal wage and cost-cutting drive, implemented with the full assistance of the United Auto Workers union (UAW).

The earnings were Ford's highest third-quarter profits since 1990 and follow second-quarter net income of $2.6 billion. Although this year's sales remain well below 2008 levels, the Dearborn, Michigan-based automaker has netted $6.4 billion over the first nine months of 2010 and is on track for one of its most profitable years ever.

Total US car and light truck sales fell to less than 10 million in 2009, down from more than 17 million earlier in the decade, and current sales levels remain the lowest in decades.

All three US automakers—Ford, General Motors and Chrysler—have wiped out tens of thousands of jobs and shut scores of plants in order to lower their break-even point and profit from far fewer sales. Ford and other automakers have also profited by raising prices and reducing incentives on high-end models aimed at more affluent buyers.

Wall Street celebrated by bidding up Ford stock. "The last time Ford looked so good, industry volume was much higher and Ford was selling many more big-ticket trucks and SUVs," Shelly Lombard, analyst at Gimme Credit research service, told the *Detroit News*. The newspaper noted, "With its lower cost structure, Ford can make money at lower volumes with a sales mix less reliant on trucks and SUVs."

Ford earned $1.6 billion in North America for the quarter, compared with $314 million a year ago. Through September, Ford's share of the US market was 16.7 percent, up 1.5 percentage points from a year ago, chiefly at the expense of its domestic rivals General Motors and Chrysler LLC.

Over the last four years, Ford has cut its North American workforce by nearly 50 percent, to about 65,000 hourly and salaried workers. By the end of the week, the company will shut down its 60-year-old Cleveland Casting Plant, eliminating the last 300 workers at the forging factory, which once employed more than 10,000.

Nearly 250 workers will also be laid off November 9 in Indianapolis, and more layoffs are expected in December at the plant, which is scheduled to close at the end of 2011. The closure will be another blow to the Midwestern state capital, where GM has threatened to close its stamping plant after workers voted down a 50 percent wage cut ordered by the automaker and the UAW.

Earlier this month, Ford executives announced the company would eliminate 175 Lincoln dealerships in major metropolitan areas, a move that will wipe out hundreds more of jobs.

Ford continued to suffer losses—$196 million—in the depressed European market. But corporate executives, who are pursuing a global cost-cutting campaign, assured investors that all of the company's operations would be profitable in the fourth quarter and remain in the black next year.

Record profits will mean a windfall for the corporation's top executives. While auto workers were forced to take huge wage and benefit cuts last year, Ford CEO Alan Mulally was paid $17.9 million in 2009. He also saw the value of his 5 million stock options—bought at $1.96 per share—increase by nearly $50 million, according to executive compensation web tracker Equilar.

The UAW apparatus will also cash in. On Friday, Ford is scheduled to make a $3.6 billion cash payment to the retiree health care trust fund controlled by the

UAW. The multibillion-dollar payoff to the UAW, which also controls a substantial number of Ford shares, is a reward for the UAW's collaboration in the destruction of the gains won by auto workers over generations of struggle. By setting up the trust fund, known as a Voluntary Employees Beneficiary Association or VEBA, the UAW has relieved the auto company of its obligations to pay medical expenses for retirees, an achievement won by auto workers in the 1950s.

Based on the concessions granted by the UAW—as well as billions in tax concessions from bankrupt states like Michigan—Ford and the other automakers plan on ramping up production. Ford announced plans to add 1,200 jobs by 2013. The bulk of the workers will be paid $14 an hour—instead of the traditional $28—under the terms of the contract signed by the UAW.

"As we launch new products, we are closing the pricing gap with Asian competitors," Ford Chief Financial Officer Lewis Booth boasted. CEO Mulally promised even more cost-cutting and speed-up next year, saying one of the "key drivers for improvement in 2011" would be "an unrelenting focus on improving the competitiveness of all our operations."

Wall Street investors and credit rating agencies have expressed concern over growing opposition by auto workers, as the UAW agreement is due to expire next year. In 2009, Ford workers overwhelmingly rejected the agreement signed by current UAW President Bob King—then head of the union's Ford Department. Workers booed King off the stage at several factories as he insisted the company needed drastic concessions and a no-strike pledge until 2015 in order to return to profitability.

Since taking over as UAW president, King has repeatedly said the "new UAW" would dispense with its old practices and focus on the "global competitiveness" of the automakers.

Ford was the only US automaker to survive 2009 without filing for bankruptcy, although it used almost all of a $23.5 billion loan it received in 2006 to fund its operations. With the full assistance of the UAW, the Obama administration forced GM and Chrysler into bankruptcy.

Last week, Steven Rattner, the Wall Street investor who headed the White House auto task force, boasted that the auto industry "has been restructured to make money." As sales rise to 15 million vehicles a year by mid-decade, he told Bloomberg TV, GM and Chrysler "will be gushing profits." Rattner, who is facing a ban from the securities industry as a result of a federal investigation into charges he directed more than $1 million in illegal kickbacks to New York State pension fund officials, demanded auto workers accept poverty wages and retirees give up dental and optical care.

These conditions are provoking a growing rebellion by auto workers against the company agents in the UAW, as seen in the rejection of last year's Ford contract, the vote in Indianapolis, and outrage over the UAW's latest wage-cutting agreement at GM Lake Orion plant north of Detroit. The sharpest expression of this opposition was the formation of the Indianapolis GM Stamping Rank-and-File Committee, which is organizing workers independently of and in opposition to the UAW.