

GM, Delphi Reach Buyout Deal With UAW

Wednesday, March 22, 2006 --- Trying to avert a crippling strike, General Motors Corp. has brokered a deal with the United Auto Workers union that would provide early retirement incentives for more than 125,000 factory workers, including thousands at bankrupt auto supplier Delphi Corp.

The three parties announced the deal on Wednesday, following a week of exhaustive negotiations.

The agreement moves the world's largest automaker one step closer to its goal of slashing 30,000 jobs by 2008, while fending off a threatened strike at former subsidiary Delphi.

Under the terms of the agreement, an estimated 13,000 of its 24,000 UAW-represented workers would be eligible for the incentives, according to Delphi.

The deal would grant a one-time payment of \$35,000 for normal or early voluntary retirement, said the UAW.

Hourly workers represented by UAW with a decade or more experience can take a one-time lump-sum payment of \$140,000 in exchange for cutting all ties to GM or Delphi.

Workers with less than 10 years experience are eligible to take a one-time buyout of \$70,000 to sever all ties, according to the UAW.

If these employees agree to break with the company, they will sacrifice health care and post-retirement benefits, said the union.

A "rollback" provision in the plan will also allow 5,000 Delphi workers to return to factory jobs at former parent company GM.

Early retirement incentives will also be offered to all of GM's 113,000 factory workers, according to a GM spokesperson.

While 36,000 are currently eligible to retire under the UAW contract, another 27,000 are close to 30 years of experience and will be offered special incentives, said the spokesperson.

The deal does not address Delphi's other disputes with the UAW, which include arguments over wage and benefit cuts and plant closings.

Delphi still intends to ask the bankruptcy judge to void its existing contracts if

the two sides are unable to reach an agreement, the company said on Wednesday.

Delphi's financial troubles began in 1999, when GM released the company as a separate corporation. The company immediately had financial difficulties, and, according to the lawsuit, "a group of unscrupulous executives turned to fraud when they concluded that telling the truth about the company's business performance would imperil their jobs and bonuses."

Bankruptcy began hitting the auto sector hard in 2005, when number-one U.S. parts maker Delphi filed for Chapter 11 protection from creditors in October.

In 2005 alone, Delphi, Universal Automotive Industries, Collins & Aikman and Tower Automotive all filed for Chapter 11, dominating the list of last year's biggest bankruptcy filings.

Experts agree that there are several serious problems facing the auto parts industry, including too many suppliers, stagnant sales by major car makers Ford and GM and a rise in the cost of raw materials.

GM in particular is facing "unprecedented financial and operational challenges" this year, according to a report released by ratings agency Standard & Poor's two weeks ago.

While the recent deal has helped diminish the threat of a devastating strike, GM's relief may be short-lived, according to Ken Yager, a managing consultant at Morris-Anderson & Associates Ltd.

"In the short term, this is a way for GM to avoid an absolute meltdown in the supply chain system," says Yager.

Delphi's strike would have "blown up GM essentially," so the proposal has allowed the company to temporarily avoid that fate, he says.

But the move has only bought GM some time and has not solved any of the enduring problems facing the company, in Yager's opinion.

"In the long term, this doesn't do anything for GM," he says. "This is like playing musical chairs on the Titanic."

More people are going to retire and GM has yet to address its already-enormous legacy costs, warns Yager.

"If the music were to stop right now, GM would be facing a giant wall of liabilities," says Yager, noting that the enormous legacy costs could potentially drive the company to bankruptcy.

"This [agreement] ignores that situation altogether," says Yager, calling it a "stop-gap measure."

“GM hasn’t missed the iceberg yet,” says Yager. “The legacy cost iceberg is still upon us and GM hasn’t switched course.”

Citing continued market and value erosion, he contends that GM is still headed for trouble.

“My strong belief is that they have not addressed the future,” says Yager. “By no means have they changed the course of their direction.”

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