

Recent Developments in Automotive Parts Industry Labor Unions

The most prominent union representing the U.S. automotive industry has always been the United Automobile, Aerospace, and Agricultural Implement Workers, or UAW. Since its inception, the UAW has represented the major U.S.-owned vehicle manufacturers, and currently represents workers at most of the unionized automotive parts manufacturers. According to the UAW, approximately 20 percent of its members – 125,000 people – worked for an automotive parts maker in 2002, down from 50 percent in 1979. There are approximately 500,000 hourly jobs at parts makers today, meaning that the UAW now represents about 25 percent of all auto parts workers in the United States. (The International Union of Electronic Workers/Communication Workers of America represents a number of Delphi plants, the Steel Workers of America represents some tire makers, and a few other unions represent a small number of other automotive workers.)

As Japanese and German vehicle makers established plants in the United States, they encouraged many of their parts suppliers also to set up local production facilities. The Department's Bureau of Economic Analysis reports that in 2001 there were 534 foreign-affiliated automotive products suppliers in the United States, employing a total of 170,000 individuals. Most of the parts workers in these plants have chosen not to join the UAW. Similarly, 12 of the 15 foreign-affiliated vehicle assembly plants in the United States are not unionized. The three that are – Mazda, Mitsubishi, and Toyota – were established as joint ventures with Ford, DaimlerChrysler, and GM, respectively. (Mitsubishi has since bought out its partner.) Almost as soon as the local Japanese and German assembly plants began operations, the UAW attempted to organize each of them. In most cases, the workers immediately turned the UAW down. Most of the vehicle transplants offer pay and benefits after a worker has been employed for a specified introductory period that are almost equal to those enjoyed in UAW organized plants. Moreover, many foreign-affiliated plants have been located in nonunion areas of the United States. In addition, the transplant owners have not been supportive of any union that wants to represent its hourly workers. This is also true for most of the foreign-affiliated parts manufacturers operating here.

Until 1999, the two largest U.S.-owned parts suppliers were subsidiaries of General Motors and Ford. Hourly parts workers received approximately, if not the same, pay and benefits as the assembly line workers. In 1999, GM spun off most of its parts subsidiaries to form Delphi. Ford did the same in 2000, naming the new parts producing company, Visteon. In both cases, spun-off hourly employees retained their existing pay and benefits package, continued to be represented by the UAW, and enjoyed reemployment rights with their original employer. Even today, most of the sales of Delphi and Visteon are to their former parents. About 60 percent of Delphi's sales were to General Motors in 2003, while 74 percent of Visteon's were to Ford.

Historically, the U.S. automakers and the UAW have had an adversarial relationship. From the very beginning, during the formation of the union in the 1930's, the relationships have been confrontational and, at times, even violent. The U.S. auto companies resisted any type of union activity in or around the plants, but finally decided it would be in the best interest of labor peace to negotiate contracts with the UAW. After the U.S. auto companies were unionized, the UAW would choose one of the larger companies (Ford, Chrysler, or General Motors) to negotiate a contract, and the new negotiated contract would be the "pattern" for all other automakers. There

are some who believe pattern bargaining contributed to the closing of the smaller automakers such as Studebaker, Kaiser-Fraser, etc. Those firms could not be price competitive with the larger vehicle assemblers because of the high labor costs they were compelled to match.

Until 2003, the UAW's philosophy for motor vehicle and parts makers was always "the same pay for the same job," or everyone should be paid the same wage rate for the same job classification. On the other hand, most foreign affiliated auto firms pay workers less when they first start, and then gradually increase their pay to the top level, many times almost equal to the UAW hourly rate. Also, the UAW had traditionally negotiated up to 30+ separate job classifications in the same production facility, while the foreign affiliates many times have had as few as two classifications in a plant. Lack of flexibility at UAW plants has also been a complaint raised by management at the parts manufacturing facilities. For example, if a worker was classified as an electrician, that worker was not allowed to do pipefitting repairs – or anything else.

Dramatic changes were agreed upon during the September 2003 negotiations between the UAW and the Detroit Three and between the UAW and Delphi/Visteon. These changes were: (1.) Delphi and Visteon agreed to a two-tier wage scale in their parts plants, (2.) The Detroit Three agreed to encourage their traditional suppliers (primarily U.S.-owned) to not interfere in UAW efforts to organize their plants, (3.) The UAW agreed to decrease the number of job classifications in each assembly plant so that the workforce can be more flexible, (4.) Visteon and Delphi agreed not to close any plants until 2011 without UAW approval, and (5.) The UAW will allow parts manufacturers to set up supply operations in vehicle assembly plants. In addition, the UAW has expressed its willingness to listen to management suggestions that could increase productivity, which in the past would have been the subject of renegotiation.

This is the first time in UAW history the UAW has agreed to a two-tier wage contract with the major auto parts manufacturers, Delphi and Visteon. The new pact sets future Delphi and Visteon UAW workers' starting pay at \$14.50, \$16.50, or \$18.50, depending on the job they will be performing. Currently UAW workers in the plants of these companies earn an average of \$24.00 an hour, and some earn as high as \$36.00 per hour. Also, new hires will have higher prescription drug co-pays, and annual health-care deductibles of \$1,000 for an individual and \$2,000 for a family. Current workers have a lower co-pay and no annual deductibles.

In early March 2004, six of American Axle's fourteen U.S. plants and the UAW agreed to a four year contract somewhat similar to the Delphi/Visteon contract. (American Axle was formed in 1994 when it was sold to a group of private investors by General Motors.) The agreement includes a \$5,000 signing bonus, with a \$1,000 holiday bonus in 2005, 2006, and 2007. No American Axle plants will be closed and current health care benefits will be maintained. Unlike the Detroit Three and Delphi/Visteon contracts, there will be no annual raises, but an annual bonus instead. The most important part of the contract for American Axle is that all new hires will receive a lower wage rate and fewer benefits than current workers, or a "two-tier wage and benefit structure." Based upon current information, it appears that the new hires never will reach the wage levels of those already in the American Axle labor force.

The principal reason the UAW agreed to these changes was its desire to stop the erosion of their membership, which has dropped from 1.5 million active members in 1979 to about 625,000 at the end of 2003. In addition to reductions caused by payroll shrinkages at the Detroit Three, the UAW lost members when the two largest U.S.-owned component manufacturers and employers—Delphi and Visteon – sold some of their operations to companies not represented by the UAW, closed some unprofitable operations, and moved some production outside the United States. At the end of September 2003, Delphi employed about 30,000 UAW workers and Visteon, 22,000. (Part of the UAW’s decline also can be attributed to the departure of Canadian members, who formed their own union, the Canadian Automobile Workers, in 1985.)

The UAW has been able to organize some plants at several parts companies in the past few years, with the encouragement of the Detroit Three and the suppliers themselves. For example, the UAW now represents some of the plants owned by Federal-Mogul, Eaton, Borg-Warner, Textron, Dana, American Axle, Collins and Aikman, Tower, ArvinMeritor, Johnson Controls, Lear, TRW, and Metaldyne. (In early March 2004, the UAW announced it would begin contract talks with all remaining TRW plants. Currently, the UAW represents about 20 percent of TRW’s plants.) These firms, along with Delphi and Visteon, represent almost all of the major U.S.-owned automotive parts suppliers serving the Detroit Three and the U.S. plants of the Asian and European assemblers. The UAW also has organized some U.S. operations of the EU’s largest parts companies, Bosch and Valeo, but has been unable to organize any of the local plants of two of Japan’s largest companies, Denso and Yazaki.

Most all of the remaining suppliers to the Detroit Three – with the exception of the Japanese-owned suppliers – probably will allow, if not encourage, their hourly workers to be represented by the UAW, in order to retain their Detroit Three supply contracts. Some industry observers believe this trend, if not carefully nurtured, could impair the flexibility of U.S. parts suppliers seeking to meet the ongoing, relentless price reduction and cost-sharing demands of the Detroit Three – to the detriment of both sides. Moreover, it might make it more difficult for newly unionized suppliers to obtain business from the local Japanese vehicle assemblers. Most Japanese affiliated assemblers are not unionized, and many fear a disruption in the daily delivery of components, should a UAW organized parts supplier undergo a strike.

In Europe, a move by the unions to become more flexible and accept wage cuts is beginning to develop. European vehicle assemblers have threatened to move some production to Eastern Europe where wages and benefits are lower. For example, Volkswagen workers in Spain recently approved a 5 percent pay cut if VW agreed not to move several hundred jobs to Slovakia. When VW did move some assembly to Poland, a number of unionized parts plants moved there also, eliminating manufacturing jobs in Spain. However, unlike the two-tier wage system being negotiated in the United States, EU unions are instead agreeing to more flexible work rules and the hiring of temporary workers.

German automotive workers are also agreeing to changes in their union contracts. German DaimlerChrysler workers agreed to scrap an expected 2.8 percent wage increase and extend some employee’s hours from 35 hours per week to 39 hours. In exchange, workers won promises that 6,000 jobs covered under the current agreement would remain in Germany for at least eight years. Robert Bosch, the leading German tool and auto parts manufacturer, is

demanding that employees work a longer work week in both Germany and France, or it will move some of the work to Eastern European countries. Thus, either the union workers in Western Europe agree to a longer work week, shorter vacations, lower (if any) wage increases, and flexible work rules, or the auto assemblers and parts makers will move production to Eastern Europe where wages and benefit costs are much lower.

Even in Japan, where automotive unions have not been nearly as strong as in the United States and the EU, changes are occurring. (Only two Japanese unions even requested a raise in wages this year, even though the larger Japanese auto companies are making record profits.) Nissan and Toyota are converting both factory and salaried workers to a performance based pay system to replace their traditional seniority-based systems. Upper management and some lower level worker at both firms have been on the performance-based system for a few years.

It appears to be just a matter of time before the UAW agrees to a two-tier wage system in all UAW production facilities, more flexibility regarding work rules, fewer job classifications in all plants, a crackdown on excessive absenteeism from those few who abuse sick leave, closure of noncompetitive manufacturing plants, and changes in health care benefits. The movement of some vehicle assembly and parts production to low wage countries or to non-unionized plants in the United States appears to be inevitable, unless some changes are made to enable the U.S. vehicle industry to become more competitive with both foreign vehicle assemblers in the United States, and with vehicle makers operating in other countries. Cooperation between the U.S. automotive industry and the UAW is essential, and there is little doubt that both parties see that this must be accomplished quickly if the domestic industry is to remain viable.

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