

BUSINESS DAY

U.A.W. Contracts Change Math for Detroit Automakers

By **BILL VLASIC** and **MARY M. CHAPMAN** NOV. 24, 2015

DETROIT — When union contracts were finally ratified at Ford Motor and General Motors last week, a new era began in the American auto industry.

The deals, which culminated labor talks among the nation's three big automakers, were the most generous for workers in more than a decade and represented a striking shift from years of cuts and stagnant wages.

“The feeling among workers was that if you're not going to get the money now when we are near the top of the market, you're not going to ever get it,” said Kristin Dziczek, a labor analyst at the Center for Automotive Research in Ann Arbor, Mich.

But for automakers, the pay raises will add to the pressure to maintain profits and could spur a shift of less-profitable car production to Mexico from the United States.

Ford and Fiat Chrysler, for example, are considering moving some passenger car production to lower-wage factories in Mexico from American plants. In their place, the companies would make more high-profit trucks and sport utility vehicles in the United States.

That shift could cause production issues down the road, particularly if gas prices increase and temper consumer demand for pickups and sport utility vehicles.

“From the company’s point of view, the U.S. is where you have to build your premium products,” said Harley Shaiken, a University of California, Berkeley professor who studies the auto industry. “To cover the cost of labor, you have to go upscale.”

It is all part of the delicate series of changes needed to solve the two-tier wage problem that has been dogging the United Automobile Workers since the system took effect in 2007.

And it was the primary hurdle that had to be cleared in the recently completed talks. When automakers began final negotiations on contracts this fall, their goal was to reward union workers financially while containing costs and preserving profits.

The companies were also willing to meet the U.A.W. halfway on reducing the gap in pay between entry-level and veteran workers.

But the strategy collapsed on Oct. 1, when workers at Fiat Chrysler overwhelmingly rejected a proposed contract that did not eliminate the divisive two-tier wage system.

“We showed we aren’t quite as naïve as they thought,” said Scott McGinnis, an entry-level worker at a Fiat Chrysler plant in Michigan. “After that first agreement, a lot of people were insulted.”

It was a stunning rebuke of the company and the U.A.W. leadership, and completely altered the course of the talks — and ultimately the cost structures of G.M., Ford and Fiat Chrysler.

Since then, all three companies have agreed to contracts that provide a defined path for every worker to earn the top union wage of \$29 an hour.

The richer contracts also underscore how healthy the Detroit companies have become since G.M. and what was then the Chrysler Corporation slipped into bankruptcy and needed government bailouts to survive just six years ago.

Sales of new vehicles in the United States are expected to hit 17 million this year, the most in a decade, and possibly exceed that in 2016. In that environment, the time was ripe for workers to cash in.

Ms. Dziczek estimated that over the life of the four-year agreements, average hourly labor costs — including health care and other benefits — will rise about 5 percent at Ford, 9 percent at G.M., and 19 percent at Fiat Chrysler.

The increases are partly based on the number of entry-level workers at each company, and the impact that progressive pay increases will have on overall costs.

But even with the wage increases and a combined payout of nearly \$1 billion in signing bonuses for union workers, the automakers are still well positioned for strong earnings, and able to invest in plant improvements and technology.

With vehicle sales and sticker prices rising, G.M., Ford and Fiat Chrysler can probably absorb higher wages while maintaining their profit margins in North America.

Executives at the car companies have refrained from publicly discussing the outcome of the labor negotiations and contentious votes by union members.

Dennis Williams, the U.A.W.'s president, has also declined interview requests since Ford workers approved their contract last week by a 51 percent majority.

But interviews with workers and union officials show that anger on the shop floor over two-tier wages was the deciding factor in the changes in the contracts.

On Sept. 15, Mr. Williams emerged from talks with Fiat Chrysler's chief executive, Sergio Marchionne, with an initial contract proposal that would have raised lower-tier workers' pay to \$25 an hour, from \$16 to \$19 an

hour, over the life of the deal.

“We won tremendous gains,” Mr. Williams said at a news conference, in which he hugged Mr. Marchionne for their collective effort.

But a few days later, a top U.A.W. bargainer, Norwood Jewell, was heckled and booed when he presented the tentative agreement to workers at Fiat Chrysler’s big Jeep plant in Toledo, Ohio.

A video of the meeting, posted on a socialist website, illustrated the clash. Mr. Jewell was shouted down as he defended terms of the agreement, with one worker yelling out, “Are you working for us or Sergio?”

When the contract went to a vote, about 87 percent of the 4,800 workers in the plant voted against it. Other factories also turned it down by big margins. When the final results came in, 65 percent of Fiat Chrysler’s 37,000 workers had rejected it.

“There was a lot of anger because people had an expectation that since Chrysler was in the black again, selling vehicles and making profits, it was our time,” said George Windau, a veteran worker at the Toledo plant.

The head of the plant’s union local, Bruce Baumhower, said his members were upset that the proposed deal left entry-level workers well short of the top union wage.

“They wanted to see a way to eliminate that,” he said. “But what they got left them about five dollars short.”

After the defeat, the U.A.W. leadership reopened talks with Fiat Chrysler.

The union also hired a public relations firm, BerlinRosen, to improve communications with workers on the U.A.W.’s website and Facebook pages.

Within a week, a new deal was struck between the union and Fiat Chrysler with a crucial concession — lower-paid workers would reach the

top wage scale after eight years of service. The new agreement was then ratified by a vote of Fiat Chrysler workers, and used as a template for the contracts at G.M. and Ford.

But without the lopsided defeat of the first proposal, the two-tier system would have stayed in place for another four years.

Fiat Chrysler workers like Darlene Rau were gratified that new employees and veterans stood together to reject the initial contract.

“I was kind of surprised it went down because I didn’t think we were so united,” said Ms. Rau, who has worked for six years at the company’s Jeep plant in Detroit.

Now, her pay has jumped to \$24 an hour from \$19, and she will reach the top wage before the contract ends. “I can actually pay my bills,” she said. “And have a little bit left for me.”

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