

**TESTIMONY OF
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**INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE &
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)**

on the subject of

**STABILIZING THE FINANCIAL CONDITION OF THE AMERICAN
AUTOMOBILE INDUSTRY**

before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

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Introduction

Mr. Chairman, my name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). The UAW represents 1 million active and retired workers, most of whom work or receive retirement benefits from the Detroit-based auto companies or auto parts suppliers around the country. We appreciate the opportunity to testify today on the subject of stabilizing the financial condition of the American automobile industry.

The UAW strongly supports legislation to amend the Emergency Economic Stabilization Act (EESA) to clarify that the Treasury Department should use the existing financial rescue program to quickly provide a \$25 billion emergency bridge loan to GM, Ford and Chrysler to enable these companies to weather the current credit and economic crises that have had such a devastating impact on our entire country. This bridge loan would be paid from the funds that Congress has already provided under the financial rescue program; there would not be any new federal funds. As with other rescue efforts under this program, the bridge loan to the automakers would be conditioned on stringent limits relating to executive compensation, as well as provisions granting the federal government an equity stake in the auto companies in order to protect the investment by taxpayers.

The UAW believes that the Treasury Department already has the authority under existing law to make the bridge loan to the auto companies. But because there is disagreement on this point, we believe Congress should act quickly to approve legislation to make it clear that the Treasury Department should act now to provide this urgently needed relief.

The Detroit-based Auto Companies Are Facing a Crisis

The situation now facing GM, Ford and Chrysler is extremely dire. Because of the credit and financial crises that have engulfed our nation, overall vehicle sales have plummeted to the lowest level in 25 years. In October, sales were at an annualized level of 10.8 million vehicles, far below the normal level of 16-18 million vehicles.

There is no great mystery as to why this enormous decline in sales has occurred. Buying a vehicle is the second biggest purchase that families make. Because of the overall credit crunch, most families cannot get credit on reasonable terms to finance the purchase of a vehicle. And because of the general economic uncertainty, many families are simply deferring any major expenditures.

The net result is that all auto companies, not just the Detroit-based automakers, have seen a sharp drop in their sales. This means that the revenues received by the companies have declined drastically. As a result, GM, Ford and Chrysler are burning through their cash reserves at an unprecedented rate. As the recent earnings reports

indicate, this scenario is not sustainable. If the government does not act to provide immediate assistance, GM, Ford and Chrysler could be forced to liquidate.

The UAW wants to underscore that this would not be a painless, “prepackaged” bankruptcy reorganization as some columnists have suggested. Consumers will not purchase vehicles from a company that has filed for bankruptcy. And bankrupt auto companies would not be able to obtain “debtor-in-possession” financing to enable them to continue operations. Thus, the stark reality is that these companies would be forced into a Chapter 7 liquidation, with their operations ceasing entirely and their assets sold for pennies on dollar.

Devastating Consequences if the Detroit-Based Auto Companies Collapse

If the Detroit-based auto companies are forced into liquidation, the consequences would be truly devastating, not only for UAW members, but also for millions of other workers and retirees across this nation, and for the entire economy of the United States. In addition to the hundreds of thousands of workers who would directly lose their jobs at the Detroit-based auto companies, according to the Center for Automotive Research a total of almost 3 million workers would see their jobs eliminated. This includes persons who work for auto dealers, suppliers of components and materials, and thousands of other businesses that depend on the auto industry. In addition, because the auto manufacturers depend on many of the same suppliers, a disruption in the supply chain would have serious negative consequences for the remaining auto manufacturers.

The liquidation of the Detroit-based auto companies would also have devastating consequences for millions of retirees. The retirees from these companies and their spouses and dependents – about one million persons – could suffer sharp reductions in their pension benefits. And they would face the loss of their health insurance coverage – an especially devastating blow to the roughly 40 percent who are younger than 65 and thus not yet eligible for Medicare. In addition, if the automakers’ pension plans are terminated, the Pension Benefit Guarantee Corporation (PBGC) would be saddled with unprecedented liabilities. To prevent the collapse of the PBGC, which would jeopardize the retirement security of millions of workers and retirees, the federal government would have to provide a huge bailout for the pension guarantee program. Furthermore, under existing law, the federal government would be liable for a 65% tax credit to cover the health care costs of pre-Medicare auto retirees costing about \$3 billion per year.

The liquidation of the Detroit-based auto companies would have serious negative repercussions for the entire U.S. economy. Almost 4 percent of our nation’s GDP is related to the auto industry, and almost 10 percent of our industrial production by value. The collapse of the auto sector would severely aggravate the current economic downturn, sending production and consumer spending into a deeper tailspin while unemployment spirals higher. Federal, state and local government revenues would

shrink even further, forcing harmful cuts in a wide range of social services at precisely the time they are most urgently needed.

The UAW submits that it would be far better for the auto industry and its workers and retirees, and for the nation as a whole, for the federal government to take prompt action now to prevent the imminent collapse of the Detroit-based auto companies. The human toll will be far less. And the ultimate cost to the government will be far cheaper.

Myths About the Auto Industry

A number of objections have been raised by various commentators against this type of government assistance to the Detroit-based auto companies. These objections are largely based on myths about the auto industry that do not stand up on closer scrutiny.

A). The Current Problems Facing the Detroit-based Companies Are Not Due to “Overly Rich Union Contracts”

Some commentators have asserted that “overly rich contracts” negotiated by the UAW are to blame for the companies’ current situation, and have suggested that workers and retirees should be required to take deep cuts in their wages and benefits. This totally ignores the recent history in the auto industry and the facts regarding wages and benefits at the Detroit-based auto companies.

The truth is that in 2005 the UAW agreed to reopen the contracts mid-term, and accepted cuts in workers’ wages and in health care benefits for retirees. Then, in the general 2007 collective bargaining negotiations, the UAW agreed to what industry analysts have called a “transformational” contract that fundamentally altered labor costs for the Detroit-based auto companies. This contract slashed wages for new hires by 50%. Furthermore, new hires will not be covered under the traditional retiree health care and defined benefit pension plans. In addition, this contract stipulated that beginning January 1, 2010 the liability for health care benefits for existing retirees would be transferred from the companies to an independent fund (a Voluntary Employee Beneficiary Association, or VEBA). This agreement has subsequently been approved by federal courts, which have appointed a majority of the trustees who will be independent of the UAW and responsible for managing the VEBA. Taken together, the changes made by the 2005 and 2007 contracts reduced the companies’ retiree health care liabilities by fifty percent.

As a result of all these painful concessions, the gap in labor costs that had previously existed between the Detroit-based auto companies and the foreign transplant operations **will be largely or completely eliminated by the end of the contracts.** Indeed, one industry analyst has indicated that labor costs for the Detroit-based auto companies will actually be lower than those for Toyota’s U.S. operations. Thus, the truth is the UAW and our active and retired members have already stepped up to the plate and made the hard changes that were necessary to make our companies competitive in terms of their labor costs.

It is also important to note that union negotiated work rules cannot be blamed for the current problems facing the Detroit-based companies. According to the Harbour Report, the industry benchmark for productivity, union-represented workers are actually **more** efficient than their counterparts at non-union auto plants. And union-made vehicles built by the Detroit-based auto companies are winning quality awards from Consumer Reports, J.D. Power, and other industry analysts.

The current plight of GM, Ford and Chrysler is simply not attributable to “overly rich union contracts.” Instead, it is the result of the larger credit and economic crises that have engulfed our nation, and the unprecedented drop in auto sales that has affected all automakers.

Because the recent contracts negotiated by the UAW are now competitive with the rest of auto industry in the U.S., we do not believe there is any justification for conditioning assistance to the Detroit-based auto companies on further deep cuts in wages and benefits for active and retired workers. We would also note that in the cases where the Treasury Department has acted to rescue financial institutions, it has only imposed restrictions on executive compensation. It has never mandated cuts in wages or benefits for rank-and-file workers and retirees. Thus, there is no basis for singling out the auto industry for different treatment.

B). The Current Crisis Cannot Be Blamed on the Detroit-based Companies Producing Gas Guzzling Vehicles

Some pundits also have asserted that the Detroit-based auto companies are to blame for their current predicament because they insisted on producing gas guzzling vehicles, rather than more fuel efficient vehicles that consumers wanted. According to this point of view, GM, Ford and Chrysler simply were not producing vehicles that consumers wanted to buy.

Unfortunately, this argument ignores the fact that the current credit and economic crises have resulted in a sharp drop in sales by all auto manufacturers, including the Japanese companies. The immediate problem is not just that consumers aren't buying the vehicles produced by the Detroit-based auto companies. The problem is they aren't buying vehicles from any company!

It is true that earlier this year the sharp spike in gas prices resulted in a sudden shift in the product mix demanded by consumers, with sales of more fuel efficient vehicles increasing, and sales of pickups, minivans and other larger vehicles dropping. This shift in product mix hit the Detroit-based companies the hardest, because their product mix was more oriented towards these larger vehicles. But it also caught Toyota and Nissan by surprise. Because these companies had been aggressively expanding production of larger vehicles, they also experienced significant dislocations.

The Detroit-based auto companies have been investing massive amounts of money to change their product mix and to provide consumers with a wide range of more fuel efficient vehicles. They are aggressively moving ahead with advanced fuel saving technologies. For example, GM plans to introduce the Volt plug in hybrid in 2010.

The landmark energy legislation that was enacted by Congress in 2007, with the support of the UAW and the auto companies, will require substantial improvements in fuel economy until the entire fleet of autos and light trucks sold in the U.S. by all companies achieves at least 35 mpg by 2020. In addition, the Advanced Technology Vehicles Manufacturing Incentive Program (ATVMIP), which was authorized by this legislation and subsequently funded by Congress in the fall of this year, will provide assistance to all automakers – the Detroit-based companies and the foreign transplants – to retool facilities in this country to produce the advanced, fuel efficient vehicles of the future and their key components. This will help to accelerate the introduction of these more fuel efficient vehicles, while ensuring that they are produced by American workers.

Some commentators have questioned why this advanced vehicle retooling program doesn't provide sufficient assistance for the auto companies. The answer is the ATVMIP is part of a long term energy policy that will provide assistance to the auto companies and parts suppliers over a ten year period, tied specifically to the production of very high mileage vehicles. This program was not designed to address the type of immediate cash flow crisis that the Detroit-based auto companies are now facing as a result of the sudden drop in overall auto sales. Even if the ATVMIP is implemented quickly – which is by no means clear – at most it will only provide modest assistance to the Detroit based auto companies in the coming years.

Other observers have questioned whether the ATVMIP could simply be expanded to allow the Detroit-based auto companies immediate access to the entire \$25 billion that was authorized and appropriated for this program. The UAW believes this would not make sense because it would undermine the fuel economy objectives of this program. Furthermore, there simply are not enough retooling projects in the short term – for advanced vehicles or more conventional ones – to make this approach feasible.

Some commentators and groups have suggested that any new assistance to the Detroit-based auto companies should be conditioned on even greater improvements in fuel economy. We recognize that President-elect Obama campaigned on a platform that included increases in fuel economy and the production of plug in hybrids, as well as assistance to the auto industry to ensure that the vehicles of the future are produced in this country. The UAW is looking forward to working with the Obama administration and the next Congress to help achieve these objectives.

But we firmly believe it would be an enormous mistake to rush to include these important new initiatives in the current emergency bridge loan for the Detroit-based auto companies. To begin with, we do not believe there is adequate time to develop thoughtful proposals that are workable and effective. In addition, given the desperate situation facing the Detroit-based auto companies, and the devastating consequences

their collapse would have for millions of workers and retirees and the entire U.S. economy, the UAW does not believe it is appropriate to hold emergency assistance hostage to broader fuel economy/environmental initiatives.

The Detroit-based auto companies need an immediate bridge loan from the Treasury Department in order to have sufficient cash to be able to continue their operations. These companies will not be able to continue on the path to producing the greener vehicles of the future if they are forced to liquidate in the coming months.

Conclusion

The UAW appreciates the opportunity to testify before this Committee on the subject of stabilizing the financial condition of the American automobile industry. We strongly urge Congress to act this week to approve legislation that will provide immediate assistance to GM, Ford and Chrysler to enable them to continue in business, and to avoid the devastating consequences that a collapse of these companies would have for millions of workers and retirees across our country. Thank you.

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