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WORKPLACE

Go Bankrupt, Then Go Overseas

For Delphi, Chapter 11 is a globalization gambit. If it works, rivals may copy it

Delphi Corp.'s (**DPHIQ**) battle with the United Auto Workers has all the earmarks of a conventional labor showdown. CEO Robert S. "Steve" Miller Jr. has demanded up to 40% pay cuts, which he says are necessary to lift the world's largest auto parts maker out of bankruptcy and make it globally competitive. The UAW has agreed in principle that concessions are inevitable but is adamantly resisting the scope of changes Miller wants.

But what's different in this battle is that Miller wants to use the bankruptcy courts to drastically slash Delphi's U.S. presence, thus freeing it up to focus on its already vast overseas production. Miller filed for Chapter 11 protection only for his U.S. operations, which employ 32,000 UAW and other union workers. He was careful to exclude Delphi's 115,000-worker foreign factories, many of which operate in low-wage countries such as Mexico and China. If Miller gets his way, court filings show, Delphi will end up with a U.S. workforce of perhaps 7,000, leaving the bulk of its production abroad. "The company will only keep U.S. operations that have technological value," says Brian Johnson, an auto analyst at Sanford C. Bernstein & Co. Miller declined comment.

Miller's is an unorthodox approach that paves a new road for U.S. employers striving to compete in a globalizing economy. After all, U.S. bankruptcy laws were written before globalization and intended to give companies a chance to reorganize and start over -- not flee overseas, says Sean McAlinden, chief economist with the Center for Automotive Research. He says other auto parts companies, a handful of which already are in bankruptcy, are likely to follow suit if Miller's strategy succeeds. That means the $170 billion annual auto parts business could shift overseas even faster, jeopardizing more of the industry's 695,000 jobs.

DRASTIC DOWNSIZING

Critics are trying to throw up all the roadblocks they can. On Apr. 6, two UAW allies, Senator Evan Bayh (D-Ind.) and Representative John Conyers Jr. (D-Mich.), introduced legislation in Congress to tighten up the bankruptcy laws in response to Delphi's moves. The bills would require the courts to factor in a bankrupt company's overseas operations when determining whether it can abrogate union contracts and retiree health-care plans in the U.S. "Some international corporations that are struggling domestically use their losses at home to justify breaking contracts with American workers while their overall company is still thriving," the two lawmakers proclaimed in their joint announcement of the legislation.

Miller doesn't talk much publicly about his goals for fear of further inflaming an already outraged UAW, but the gist of Delphi's plan is apparent in its bankruptcy filings. Right now the company produces about two-thirds of its $28 billion in annual revenue in the U.S. This includes everything from high-tech engine controls and satellite radios to low-tech commodities such as air filters and brake parts. Its reorganization plan would ditch everything in the U.S. except safety technology, radios, information and entertainment systems, electronics, wiring, and engine controls. That would leave Delphi with U.S. revenues as low as $5 billion.

To pull off a downsizing of that scale, Delphi would close or sell 21 of 29 plants it has identified as noncore businesses, according to the filings. An additional 12 plants are not named in the reorganization plan, but a company spokesman says some of those will go, too. It's not just $27-an-hour union wage scales at issue. Even if the UAW agrees to slash pay to $22 per hour this year and to $16.50 per hour next year, as Miller has demanded, many of Delphi's plants are inefficient and would take huge investments to bring up to world-class standards. Bottom line: Delphi's plan would slice away 27,000 U.S. union jobs by 2010.

Many of these cuts will come with aid from former parent General Motors Corp. (**GM**). It's on the hook because it buys about $14 billion in parts a year from the company it spun off in 1999. If the UAW were to strike over Miller's demands, GM would be shut down in a couple of weeks, GM CEO G. Richard Wagoner Jr. tells *BusinessWeek*. That's why Wagoner agreed in March to take back 5,000 UAW workers from Delphi and offer early retirement buyouts to 13,000 more. It's also why he is still at the bargaining table, trying to grease a deal that will help Delphi cut costs while keeping its union workers off the picket line.

Indeed, Wagoner may end by subsidizing the wages of whatever jobs Delphi keeps in the U.S. UAW leaders say GM may pay as much as $10 an hour on top of the $12 Miller is offering his UAW members. Wagoner insists he won't take over any Delphi plants. But McAlinden thinks GM could wind up paying some of Delphi's wages, at least temporarily.

That may not be quite as crazy as it sounds. Consider that GM is currently subsidizing Delphi by paying $2 billion above market for the parts it buys from its former division, says Wagoner. If GM wage subsidies persuade the UAW to go along with Miller's plan to shutter more of its U.S. plants that supply GM, that would free up the auto maker to find cheaper suppliers. "We can work it out," Wagoner says. "The benefit to GM is that we can get parts at market-based prices."

For Miller, the preferred outcome is clear: exit high-cost U.S. operations in which Delphi is not competitive. McAlinden figures other suppliers -- even healthy ones -- will take similar steps. "You don't think that companies like Lear (**LEA**) and Johnson Controls (**JCI**) won't want to find a way to go overseas?" asks McAlinden. "You bet they will."

By David Welch