

# McTevia: Delphi Could "Shrink"

Oak Creek could lose Delphi jobs

Unions say only 4 plants likely to survive bankruptcy

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Union leaders at Delphi Corp. in Oak Creek said Thursday that they don't expect their two plants and the 1,200 jobs there to survive the bankruptcy of the automotive parts supplier.

"There's not going to be any work there. There just isn't. It's done," said Skip Dziejdzic, president of United Auto Workers Local 1866, which represents about 425 Delphi workers in Oak Creek. Another 600 workers there are members of UAW Local 438.

Randal Middleton, president and business manager of International Brotherhood of Electrical Workers Local 663, which has 60 workers at Delphi in Oak Creek, said a company official he wouldn't identify stated in a conference call Thursday that the side-by-side Oak Creek plants would close by the end of 2007.

"It's disappointing, but it's not earth-shattering," Middleton said, noting that a lot of workers anticipated such news. "Of course," Middleton added, "everything is subject to change."

Local 1866 has told its members that Delphi appears set on keeping only four of its U.S. plants - Lockport and Rochester, N.Y.; Kokomo, Ind., and Grand Rapids, Mich. Delphi, based in Troy, Mich., did not return calls Thursday.

Dziejdzic said he figures the catalytic converters made in Oak Creek will be made only in Mexico and China before long. The electronics made in Oak Creek probably will be consolidated into Delphi operations in Kokomo, he said.

Bankruptcy filing in October

Industry analysts agreed that such moves would make sense. Delphi, the biggest supplier to General Motors Corp., was spun off from GM in 1999 and filed for bankruptcy protection in October.

"Delphi has been trying to sell plants ever since it emerged from GM," said Daron Gifford, an automotive

industry analyst with gedas USA in Detroit. "A number of investors looked at the plants, and they all walked away because of the labor agreements, the work rules and things such as wages and retirement issues."

But speculation that Delphi will close all but four of its U.S. plants is "probably a more dramatic restructuring than anyone was envisioning," Gifford said. "It would take Delphi down to about one-third of its size today."

When it emerges from bankruptcy, Delphi will probably focus more on high-value products, such as electronics and certain engine parts, analysts said.

Production of less expensive "commodity parts" will be moved to Mexico or offshore.

"The technology doesn't change much in those parts," Gifford said.

If Delphi shuts down all but four U.S. plants, it would still have annual revenue of about \$10 billion a year, according to analysts.

"Kokomo is a huge operation all by itself," Gifford said. "So it doesn't make Delphi a small company" even if the shrinkage happens at other operations.

Delphi is due for change

When everything is finalized, the company might close fewer factories than the UAW believes are in jeopardy.

"But if somebody wrote Delphi a big check for these plants, I am sure the company would jump at it," Gifford said.

It would not be unusual for a company the size of Delphi to "shrink down" to one-third of its former size, said Jim McTevia, founder of McTevia & Associates, a Detroit-area firm that advises companies in bankruptcies.

"I have repeatedly said that when Delphi comes out of Chapter 11, it has got to be a much different company," said McTevia, who has 40 years of bankruptcy experience. "That usually means substantial downsizing."

GM might already have found suppliers to replace some of Delphi's operations.

"You can bet your life that GM has been exploring other sources," including offshore companies, McTevia said. "There are many non-union companies in this country that would love to have the new business."

While in Chapter 11, Delphi would need permission from bankruptcy court to void labor contracts and close plants.

"But I am sure they could get that," McTevia said. "The judge is not going to order a company to keep plants open while it's bleeding money. That is always a card Delphi could play if it can't reach an agreement with the UAW."

Visteon could be precedent

Downsizing Delphi could put the company on a faster return to profitability, said Walter McManus, director of the Automotive Analysis Division at the University of Michigan Transportation Research Institute.

In an effort to avoid bankruptcy, Visteon Corp., the nation's second-biggest auto parts supplier, transferred 23 of its North American plants to Ford Motor Co. last year. Visteon put six plants up for sale and announced the closure of three others during its restructuring.

Visteon might have set a precedent for the automotive parts industry.

"I would not be surprised if that's what is being discussed at Delphi," McManus said.

Mergers and acquisitions are helping automotive parts suppliers weather tough times, according to an industry report from Ernst & Young Global Automotive Center in Troy, Mich.

In some cases, small and midsize companies are pairing up to get business that Delphi and Visteon no longer want.

"Simply put, most suppliers today are doing a major housecleaning," the report notes.

This week the UAW, which represents about 70% of Delphi's 34,000 hourly employees in the United States, rejected the company's attempts to slash workers' wages. The UAW has said that it expects Delphi to ask the bankruptcy court today to dissolve its contract with the union, but Dziedzic and Middleton said they expect the union and company to continue talking.

"I think both sides understand that they're better off reaching an agreement outside the judge's proceedings," Middleton said.

Local impact

State and local agencies are standing by to assist Delphi workers and the Oak Creek community should the company reduce or close the plants. The company has deep roots in the Milwaukee area, tracing

back more than 55 years to an east side factory for the AC Spark Plug Division of General Motors. The business later became part of Delco Electronics, which merged with Delphi before being divested from GM.

The Private Industry Council of Milwaukee County has begun an economic impact study to assess possible loss of about 500 jobs through the Pentagon's proposed closing of the 440th Airlift Wing, also in Oak Creek. Gerard Randall, CEO of the publicly funded agency, said that study will be expanded to look at potential damage from cutbacks at Delphi.

Al Foeckler, president of the Oak Creek Common Council and in whose district the vast Delphi complex rests, said he wasn't sure what the city could do for the workers at this point but felt that action is imperative.

"The people living in our neighborhoods have the potential of losing their jobs," Foeckler said. "It's a dramatic impact to the city."

Meanwhile, the Delphi workers keep doing their jobs, "still building 20,000 parts a day over there," Dziedzic said.

"People are concerned about how fast or how slow the ramp-down is going to be," Middleton said, "and if there are going to be buyouts, when they are going to be eligible."

And though closings or even official word of closings may be months away, Dziedzic said he is urging his members to start looking into schooling and training and other occupations into which they can make a transition. It's advice he's taking personally.

"I have a daughter that's in college and one that's in high school," said Dziedzic, who's 51 and has been at Delphi 31 years. "I'm not sure what all there is out there."