Delphi in Advanced Planning for Shutdown

by Richard Freeman

Starting the last week of October, Delphi Corp. CEO Steve Miller began a full-fledged charm offensive, meeting with members of the U.S. Congress and visiting auto plants to talk with workers. He promised that he would consider their input in what to do with Delphi, and said that he had not made up his mind about which plants, if any, he would close.

Within 48 hours, Miller's effort blew up in his face. On Oct. 31, the Lansing, Michigan-based Anderson Economic Group (AEG) released a study, which indicated that it is very likely that in 2006, Miller will cut the world's second-largest auto parts producer by at least a further 20%, including shutting down 10 U.S.-based production facilities. This would cause the layoff of 12,500 production workers, or more than one-third of Delphi's production workforce in the United States and Canada. AEG said that the close-downs would cost Delphi workers and the economy combined at least $10 billion, and this was the *minimum* of three plant shutdown options.

On Nov. 2, the *Detroit News* revealed a confidential Delphi memo that divulged an internal Delphi plan, code-named "Northstar," which overlapped the AEG study. Under Northstar, Delphi says it would seek, in its own words, to "execute ruthless portfolio management." It would focus on "more winners, more exits," the latter denoting plant close-downs. The plan calls for Delphi to shut down five production facilities and seven technical centers in the United States, and two other production facilities.

Thus, Miller and Delphi management *had already formulated and approved* plans to decimate Delphi, moving much of its production to slave-labor overseas facilities, even as it toyed with Congress, spewing out phrases about joint partnerships.

The U.S. government must act forcefully to save Delphi, and there have been steps in that direction. In mid-October, U.S. Reps. Tim Ryan (D-Ohio) and Ted Strickland (D-Ohio) formed a Congressional Coalition of House members who have Delphi plants in their districts. According to Ryan, the purpose of the Coalition is to "explore every avenue to protect the livelihood of workers, retirees, and the manufacturing capability critical to the U.S. auto industry and the communities where Delphi operations are located." Strickland stated on Oct. 13, "Delphi's bankruptcy affects not only the employees that work directly for it, but the countless other manufacturers who supply parts to it." Attendees at the Coalition's first meeting on Oct. 14 included Reps. Mike Turner (R-Ohio), Deborah Pryce (R-Ohio), and Marcy Kaptur (D-Ohio), and Sen. George Voinovich (R-Ohio).

On Oct. 20, Sen. Hillary Clinton (D-N.Y.) called for convening an emergency summit to save the auto industry, stating, "Given the fact that there are over 1 million Americans currently employed in the auto industry, we cannot simply allow one of the core elements of our national economic infrastructure to wither away."

Senator Clinton's call shifts the national agenda, and opens the door for debate of the proposals of physical economist and statesman Lyndon LaRouche for a "strategic bankruptcy" of the auto sector. In his Oct. 12 webcast, LaRouche explained, "In the past, in situations like this, we have put an entity or a group of entities under Federal protection, not with the intent of privatizing them, but of reconstituting them." This calls for re-tooling the auto sector's advanced machine-tool design capacity, and redeploying its productive labor force to produce capital goods urgently needed for indispensable infrastructure projects, including constructing magnetically levitated train systems.

As LaRouche stated in his April 13 Emergency Action Call, this action must be adopted immediately, and with "pungent force." Miller does not intend to leave much of Delphi standing, and discussion with him is of no avail. The U.S. Senate and House must be prepared to bring to bear the full power of the U.S. government spelled out in the Constitution, to save the auto sector and the nation.

Destruction of the Workforce

Delphi hired Miller to be its CEO on July 1 of this year, based on his documented track record of destroying companies over which he served as CEO, such as Bethlehem Steel. After being on the Delphi job merely two months, Miller demanded that Delphi's 34,750 production workforce in the United States and Canada accept a pay cut, from $28 to $30 an hour down to $10 to $12 an hour, a reduction of 64%, and similar cuts in health benefits and pensions. Miller forced Delphi into Chapter 11 bankruptcy on Oct. 8, abusing the bankruptcy laws to acquire free rein to restructure the company as he saw fit and to abrogate all collective bargaining agreements, not because of a pressing financial need to file for bankruptcy. He told the workers that they could either accept his demands or he would ask a bankruptcy judge on Dec. 17 to give him the power to impose them unilaterally.

The AEG study, entitled "Likely Impact of a Delphi Bankruptcy," shows how deeply entrenched Delphi's policies are, and how Miller is implementing them.

Patrick Anderson, the report's chief author, asserted, "Unfortunately, a soft landing is no longer possible. Even our optimistic scenario envisions a reduction in [production worker] employment [in North America] of over 12,500."

The report considers three options of increasing severity: "1. Delphi reorganizes in a manner close to its announced plan to shrink 20% of its ongoing business. 2. The company's planned reorganization fails, and some other plan is adopted. This would, in our opinion, almost certainly involve a much larger reduction in operations. 3. A third option is a Chapter 7 liquidation of the company, with selected portions of the firm sold to other auto suppliers or auto makers."

Option 1 would send out powerful shockwaves, as 10 Delphi production facilities in the United States would likely be closed permanently during 2006 (see **Table 1**). This would involve the layoff of 12,500 production workers. By the time the AEG study gets to Option 3 (liquidation), it assumes that 26,931 workers, or 77% of Delphi's current production workforce in the United States and Canada, would be fired.

The AEG study assessed the impact the phases of shutdown of Delphi's production would have on the economy. The study says that Option 1 would very conservatively cost more than $10 billion to the U.S. economy in 2007, including lost income for Delphi workers and retirees, lost output for the big auto producers and other auto-parts makers, lost taxes for the U.S. government, and its effect on the Michigan economy.

The study's methodology deliberately understated the extent of the impact. Once corrections are made, a more accurate assessment of Option 1 would be combined losses of $15 billion to $20 billion.

TABLE 1
Delphi Production Facilities Likely To Be Closed During 2006

Plant Location	Number Of Employees
Flint, Michigan	3,160
Athens, Georgia	2,191
Dayton, Ohio	1,632
Moraine, Ohio	1,256
Kettering, Ohio	1,256
Anderson, Indiana	880
Vandalia, Ohio	642
Fitzgerald, Georgia	385
New Brunswick, New Jersey	319
Laurel, Mississippi	82

Source: Anderson Economic Group.

There are special ramifications for Michigan. Delphi's headquarters are located in Troy, Michigan, and the company operates five sizable production facilities in the state. The AEG report drew out the crushing effect of a Delphi liquidation on the state. It emphasized that, "in the worst-case scenario [Option 3], Delphi shuts down its plants in Michigan and moves its headquarters elsewhere. This results in a loss of state taxes of approximately $945 million. Losses of this magnitude to the state government would be associated with the depression-magnitude losses in the private sector. This is a doomsday scenario for the state."

Anderson asserted in a Nov. 3 interview that the states of "Ohio, New York, and Alabama would be considerably impacted as well by a Delphi liquidation."

Plan Northstar

Just as Miller was engaged in his charm offensive, attempting to elude his nickname of "Miller the Killer," the Delphi "Northstar plan" report found its way into the press. The document declared that in its drive for global dominance of the auto electronics and safety markets, Delphi will pursue "aggressive cost reduction via product exits, site consolidation, and legacy cost reduction."

Indeed, key components of the plan include shutdown of five manufacturing plants: Flint East plant in Flint, Michigan; Plant 9 in Kokomo, Indiana; the Milwaukee, Wisconsin plant; the Vandalia, Ohio plant; and the Tucson, Arizona plant. Also on the chopping block are factories in Ashimori, Japan and Liverpool, England. In addition, it calls for closing seven of the Electronic division's technical centers in the United States.

The report also stated that Delphi would attempt to acquire Motorola's automotive electronics division for $1.7 billion.