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# Fiat: Marchionne’s gamble

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Don’t submit: workers at Fiat’s Pomigliana plant outside Naples march during a national general strike called in June by the leftwing CGIL trade union federation

Union pickets chanted and paparazzi pressed at the entrance as Sergio Marchionne, chief executive of Fiat and Chrysler, arrived this month at the Italian carmaker’s Turin headquarters to oversee what would be a historic meeting. His mission: to break up the 111-year-old group and forever change the way it operates.

As is usual with Mr Marchionne, an Italian-Canadian who cut one of the boldest **industrial deals** of the financial crisis when Fiat agreed an **alliance with Chrysler** as it exited bankruptcy, he had slept little the previous night – just two hours. His corporate jet had brought him to Italy from Brazil, where Fiat runs one of the world’s largest car plants, via Auburn Hills, the Detroit suburb where Chrysler is based.

Once inside, a group of Fiat workers heckled him continuously, twice halting the two-hour extraordinary shareholders’ meeting. Mr Marchionne, who looked tired and admitted as much, referred to Fiat as Chrysler on one occasion.

The reason for the **unions’ anger** was Mr Marchionne’s great gamble. In a last-ditch attempt to fix Fiat’s lossmaking Italian manufacturing base, he is promising to invest €20bn ($27bn) to double the country’s vehicle production by 2014. But it comes at a price: in return, Italian workers, who are among the world’s most protected, must adopt **US-style flexible contracts**. If they refuse, as the rumpled Mr Marchionne repeated at the end of that day, he will pull Italy’s biggest private employer out of the country altogether. Industrial jobs seen as a birthright in Fiat’s home market could go to lower-cost sites in Poland, Serbia – where Fiat owns the vast former Zastava plant that once made the cheap Yugo car – or elsewhere.

Mr Marchionne’s showdown with the Italian unions forms a fitting backdrop as industry executives gather on Thursday at the Paris auto show. The confrontation gets to the heart of the challenges facing automakers as the bulk of demand for their products shifts inexorably to Asia and Latin America, away from their traditional manufacturing hubs in Europe and North America.

But Mr Marchionne’s challenge to unions also speaks to a wider debate on how competitiveness can be restored in European industry as companies and governments seek to recover from the worst downturn in six decades. It will be a crucial test case as unions in the UK, France and elsewhere prepare a show of force against state and corporate austerity.

At Fiat, the confrontation has already involved **political conflict**, papal intervention and plant sabotage. Mr Marchionne’s ultimatum to unions – accept the deal or Fiat will leave – has even prompted some in Italy to ask whether his plan could represent a “Thatcher moment” akin to the former British prime minister’s defeat of the coal miners in 1985.

Thus far, **three of Fiat’s unions have agreed to new contracts** and more flexible labour practices at the company’s Pomigliano D’Arco plant near Naples. But Fiom – Italy’s largest metalworkers’ union, with 360,000 members – is resisting. Maurizio Landini, its far-left leader, claims Fiat is leading efforts to **divide the union movement and dismantle or weaken the system** of collective bargaining between workers, government and the employers’ lobby Confindustria that has existed since 1993.

**INDUSTRIAL RELATIONS AT CHRYSLER**

**‘We’re grateful to Sergio for a chance to show we’re world-class workers**

Sergio Marchionne’s relations

"We can't all become Poles in terms of wages", says Susanna Camusso, who in November is to become head of CGIL, the largest federation in Italy's trade union movement and its most leftwing, to which Fiom belongs. "Marchionne can be in love with the American model with a single union, but Italy is not the same".

Mr Marchionne has been equally plain-spoken in telling unions they must choose between perks and jobs. "We didn't choose the rules of international competition and neither are we able to change them – though we might not like them," he wrote in a letter to employees on July 9. "The only thing we can choose is whether we will be in or out of the game."

Throughout the downturn, Mr Marchionne has been the most vocal of any automaking boss about the industry's chronic overcapacity problems – and the most opportunistic in seeking to profit from the new business the crisis created. Fiat acquired 20 per cent of Chrysler as it exited Chapter 11 bankruptcy last July, with the option to increase its stake to 51 per cent.

"Our **industry** has destroyed billions of dollars in value, and we have been at that task year after year," he said in a speech in Detroit in January. "The financial crisis that peaked in the last 12 months did not cause the problems we face: it unmasked them – laid them bare – and deprived us of any pretence for denial."

He added that a crisis that did not result "in enduring changes, in fundamental changes, will have been very senseless indeed".

In the US, the economic slump prompted the biggest **realignment** in decades for Detroit's three carmakers, which – at the prodding of President Barack Obama's automotive task force for Chrysler and GM, and in Ford Motor's case under its own steam – closed dozens of plants and cut tens of thousands of jobs. TheUnited Auto Workers' Union made historic concessions, including lower wages for new hires, to keep Chrysler, GM and Ford in business. When he negotiated the Fiat/Chrysler alliance, Mr Marchionne secured an agreement from unions not to strike before 2015.

In Europe, by contrast, soft loans and **scrappage** plans – including Italy's scheme last year – helped to keep the big manufacturers afloat during the downturn without radical restructuring. Mr Marchionne points out that the industry has global capacity to produce 94m cars – 30m more than it sells – and the problem is worst in Europe. In Germany, for example, no car plant has closed since the second world war.

Last year he announced a plant closure at Termini Imerese, the Sicilian factory that has drained profits from Fiat for decades. Pope Benedict XVI reprimanded him for the move.

Fiat's boss then threw down the gauntlet to unions in April, when he announced a five-year business plan that will also see the group's demerger by January into two listed companies comprising its automaking and industrial businesses. The latter includes Iveco trucks and the farm-equipment group CNH.

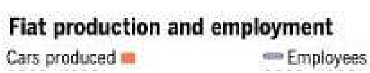
Mr Marchionne sees Fiat very much as a global group. In an interview with the FT last year, he described it as "an Italian based, but not an Italian company". The hiving off of Fiat's autos business will clear the way for a closer alliance – and later possibly even a merger – with Chrysler.

By 2014, Mr Marchionne said in April, the combined output of Fiat's Italian plants would reach 1.4m, more than double the 600,000 cars they produced in 2009. About 1m would be exported.

However, Mr Marchionne says Fiat's Italian base will need to become much more efficient in order to earn the right to make vehicles the company could produce more cheaply elsewhere. Fiat's autos unit makes most of its profit in Brazil, where it is the market leader, but loses money in Europe. To make his case, Mr Marchionne has brandished figures showing the relative numbers of cars produced per employee in Italy, Poland and Brazil – a comparison in which Fiat's home country fares poorly.

But unions see the plan as merely a pretext to scale back Fiat's Italian carmaking operations. They dismiss the comparisons with Poland and Brazil, claiming that for the past two years Mr Marchionne has given Fiat's Italian plants no new models to produce. Fiom says Fiat's proposed changes to rights to strike and sick leave breach labour codes and the constitution. Only 62 per cent of the 5,200 workers at Fiat's Pomigliano plant voted in favour of the new contracts.

In July, months of skirmishing between the two sides peaked when Fiat sacked




with Fiat's unions have been fraught lately, they are markedly warmer at Chrysler, *writes John Reed*. An executive at the American carmaker speaks of a "honeymoon" between workers and management, and at least one union leader refers to the chief executive of Fiat and Chrysler by his first name.

"A year ago we didn't know if we would have a company," says Cynthia Holland of the United Auto Workers at Chrysler's Jefferson North plant in Detroit. "We were grateful to Fiat and Sergio for a chance to show we were world-class workers."

When Mr Marchionne was negotiating Fiat's alliance with Chrysler, some in the industry warned him about tying his company's fortunes to a Rust Belt producer whose workers are organised under the UAW. The union was once seen as central to Detroit's lack of competitiveness because of its tough stance on wages and work rules. But since the alliance was concluded in June, it has been a willing partner in his drive to improve efficiency.

Some of this is down to relationships forged during Chrysler's bail-out between Mr Marchionne, raised in Toronto; and the UAW and its Canadian counterpart. But the unions' more co-operative stance owes most to Chrysler's torrid recent history, Michigan's severe economic downturn and the nature of the US government-backed bailout.

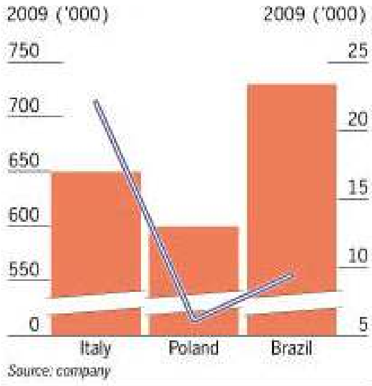
In 2007, when the economic downturn plunged Chrysler into deep financial losses that threatened its survival, the UAW made historic sacrifices. These included taking on new workers on reduced wages, and shifting healthcare liabilities to an employee trust that is the company's biggest shareholder following its emergence from its 2009 bankruptcy. "We're at a new moment for the union – you have this grand bargain in the industry," says Professor Harley Shaiken, a specialist in labour issues at the University of California, Berkeley.

The UAW's flexibility has grown in inverse proportion to its clout. As the Detroit car industry has waned, so has its membership – from a peak of about 1.5m in 1979 to about 355,000 today.

One of Fiat's first tasks was to help overhaul Jefferson North in preparation for production of the Jeep Grand Cherokee, implementing "world class manufacturing" processes modelled on those used by Toyota and already in place at Fiat. In this context, the Italians were welcomed warmly. "There was a revitalisation and a culture of transformation," says Pat Walsh, plant manager. "We did what we had to do to get this company back on its feet".

The good morale, says Ms Holland, extends to the new workers hired on lower rates.

three workers from Fiom for allegedly sabotaging production at its Melfi plant in the southern Basilicata region during a strike. They have become the faces of the confrontation, and a court ordered Fiat to reinstate them in August. The company has since appealed against the ruling; the workers say they are forced to stay in a closed room away from the production line during their shift.




"Economically, we've been really strapped," she says. "My people are grateful to have a job."

Last week a rally was staged on their behalf near Italy's justice ministry in Rome – though the event stirred little interest apart from a few reporters and passers-by. "Marchionne is doing to workers' rights what [Silvio] Berlusconi is doing to the constitution," declared Antonio Lamorte, one of the three workers, referring to the Italian prime minister's efforts to boost his powers and secure immunity from the courts.

Laura Pennino, an analyst at Banca Leonardo in Milan, believes that while negotiations with the unions will be tough, Mr Marchionne's harder line will prevail "as Fiat's production in Italy will be otherwise substantially reduced against the political will".

Many in Italy think Mr Marchionne's longer-term priority will be to create value and build Fiat-Chrysler into a global group. In that scenario, the first step has been made: to split Fiat's car unit from the rest of the company. This will allow the Agnelli family, Fiat's founders and main shareholders, to ring-fence the car industry's perceived risks and enhance the value of the rest.

While the unions' anger has drawn headlines, some Italian businessmen and entrepreneurs are quietly praising Mr Marchionne for having given companies confidence to approach industrial relations afresh at a time when many are struggling to compete with Asian competitors. "He has helped Confindustria and the entire public opinion to understand that the world won't wait for Italy", says Dario di Vico, a columnist on Italian business affairs for Corriere della Sera.

Mr Marchionne puts it more starkly. "This is a challenge between us and the rest of the world," he told workers in July. "It is a challenge that you either win together or lose together."