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ESG Now Podcast

“The United Auto Workers of ESG”

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Mike Disabato:

What's up everyone and welcome to the weekly edition of ESG Now, where we cover how the environment, our society and corporate governance effects and are affected by our economy. I'm your host Mike Disabato, and this week we discussed the United Auto Workers strikes at the Big three auto companies in the US. Thanks as always for joining us. Stay tuned.

The demands of United Auto Workers have made to the big three US auto companies, General Motors, Ford, and Stellantis, the parent company of Chrysler, are varied. The UAW who are on day six of their massive walkout as of this recording are trying to ensure the auto worker is not left behind in the new world of the electric vehicle. They're asking for a wage increase and a return of cost of living adjustments, which were both frozen after the 2008 financial crisis. And they're contending that CEO pay is too high compared to the median workers pay.

All those points, by the way, are ESG. They're the acronyms in order, the environmental changes, the social issues in the form of labor and governance problems. And I want to quickly address the governance concern UAW has because CEO pay is not just a problem in the auto industry. Let's take General Motors' CEO Mary Barra to just give an example here. She's the highest paid chief executive among the big three and made nearly $29 million US in 2022. Our data shows this is around 360 times the median GM employee, which had a pay in 2022 of about $16.50 at a Lordstown, Ohio facility according to UAW.

Now, that ratio of 360 times the median pay at GM is not unique among global companies. There is a propensity for publicly traded companies to have these extremely wide gaps between CEO and median workers. And high pay for the CEO has long been justified by its potential to incentivize top talent, but that actually does not bear out. There's a report my colleague, Harlan Tufford, wrote in 2021, that found, "when measuring pay and performance against CEO tenure, that there was little evidence that high CEO pay achieved this lofty goal of CEO incentivization." Basically, the claim that pay made performance better was not correct. So on a whole, the problem with CEO pay disparity compared to the average worker is a real one, and the UAW has a point in worrying over why it's so high while their wages are stagnant and falling if you count for inflation.

Now, the social and environmental problems they're dealing with, however, is a much more complicated story because they intertwine and contradict each other in ways that I and my colleague and guest today, Yu Ishihara, who covers the auto industry for us, will hopefully elucidate and unwind a bit for you. And what Yu initially told me when I called him up to talk about the story today is that the transition the UAW is seeing and trying to fit themselves into when it comes to electric vehicles, will indeed have made ramifications for the environment, the broader economy and the worker. And in a way, the die is already set.

Yu Ishihara:

I don't think it's a surprise at this point that the auto industry is aggressively pivoting their business model towards electric vehicles, with new players like Tesla leading the market but the traditional auto manufacturer also making aggressive pivots towards decarbonizing their business model. And to that end, the big three have all committed to significantly, or in some instances entirely transition their product suite to electric vehicles over the coming decade plus. And they've also received heavy government support to do so as the industry has been heavily incentivized by the Biden administration to build out the requisite supply chain within the United States to support the production of electric vehicles.

The primary question then becomes, where does the UAW affiliated worker fit into that picture? It's been pretty well documented that electric vehicle manufacturing is less labor-intensive compared to combustion engine vehicles. And even Ford has openly cited around a 30% reduction in required labor. And to make matters worse for the UAW worker, it's not just hypothetical scenarios in the future anymore either, as we've already seen all of the big three take action in the form of job cuts and plant closures over the last few years. And mind you, this is still when EV sales represented less than 10% of total car sales for all three companies in 2022. And so understandably, the UAW is very concerned that the ascendance of EVs is a potential existential threat to the traditional auto worker.

Mike Disabato:

That's a larger scale version of the argument coal workers have made very publicly in the US. The transition to the green economy is going to mean a lot of lost jobs for a lot of people. It's a sort of argument that is usually countered with the statement that, well, there's going to be a net increase in jobs due to the demands of a low carbon economy, which is true for some industries and not true for others of course. Autos seems to be an industry that is not going to see a net gain in jobs. And the reason for that is you just need less parts for an EV than you do an internal combustion engine. The power trains are simpler. You can just do much more with less workers when it comes to EV.

But even if it was true that you needed more workers for EVs than you did for internal combustion engines, what the UAW was worried about is auto companies are already partnering with non-union external manufacturers of, for example, batteries. And a lot of these external manufacturers are joint ventures, often with non-US companies that don't seem to be staffed with union workers. And this is already before we start discussing Tesla's influence on the EV market and other auto companies that are stepping into the fray as the traditional dominance of the big three automakers over the industry as it shifts to electrification is starting to wane and change.

And all those changes, those shifts to deal with climate change and the emissions of ground transportation, which we need to deal with in order to slow climate change to a more manageable degree, all that comes into conflict with the demands by the UAW for wage increases to go with companies profit increases for the demand for healthcare benefits, the demand for cost of living adjustments to meet inflation. And does caring about the environment mean that we have to leave a lot of people out in the cold? And what does ESG think about when there is a conflict between sustainable labor relations and lowering a company's carbon emissions? I asked, Yu.

Yu Ishihara:

Yeah, so this concept of conflicts arising between different ES or even G issues, is not something that's unique to the auto industry, but is part of a broader discussion around the concept of what's called a just transition. And I think this UAW strike is arguably the perfect example of clashing views and priorities of different stakeholders when considering a just transition for the automobile industry.

So how are the automobile companies going to balance these issues? Well, in some sense, I would argue that they don't really have a choice. Given all the announced capital investments, EV sales targets broader net-zero targets both at the corporate and national level. An industry-wide transition to zero emission vehicles is inevitable. And I don't think the UAW would disagree with that or even push back against it. So what's left then in the face of the EV transition is for companies to manage their existing assets and workforce in such a way that the transition can be handled as smoothly as possible.

Mike Disabato:

They can rescale and retrain their staff, they can work to ensure there are proper labor protections at the manufacturers, they partner with. The sort of protections that we believe unions do allow for. The sort of labor protections that unions do allow for. A type of investor might think that a sustainable auto company would do what the UAW President, Shawn Fain, urged auto companies to consider in a recent press release, that, "the EV transition must be a just transition that ensures auto workers have a place in the new economy." And since there are a million plus auto workers in the US at the moment, the words do ring pretty loudly. So the question is, when it comes to labor management, which of the auto companies that we cover are better able to deal with this existential struggle than its competitors?

Yu Ishihara:

Right. So there isn't really a straightforward way to answer that question as I think it can depend on a lot of different factors, including things like the different degrees of exposure to different markets as well as the actual management practices employed at each company. Overall, I would say that none of the big three particularly stand out from one another in terms of labor management practices. But our research does show that, for example, Ford has 99% of their workers covered by some form of collective agreements, compared to 87% for Stellantis and 46% for GM. But none of them employ industry leading practices such as variable performance-based pay structures that cover the entire workforce. Yet they still have all received external recognition as being one of America's best largest employers by Forbes last year. Yet they've also experienced strikes at all of their facilities to varying degrees.

Mike Disabato:

The collective agreements Yu mentioned can be a substitute for numbers on union coverage membership that is Ford has the most union coverage, then comes Stellantis, and much farther back is GM. Which might mean that the disruption from the UAW workers walkouts is the lessened at GM compared to the other two companies, we will have to see. Though, as Yu noted, it's not easy to see good or bad labor management practices as a way to say, oh, okay, this company is going to weather this change better than that company, especially when the change is on the scale of the auto industry's transition to EVs. And there is another complication that I wanted Yu to expound on with these companies, their international footprint. Because even though they have an outsized representation of their workforce in the US, they do have a presence in the EEU and in China. And the problems there are the same when it comes to the transition to the EV market, but the opportunities and the risks to labor disruptions are very different depending on where you're located and where your workers are located.

Yu Ishihara:

I think every major market that has a significant automobile manufacturing footprint will have to face this issue of balancing the just transition to EVs at one point or another. But looking abroad in the past, for example, Germany's most powerful labor union, IG Metall, also called out the same issue of potentially tens of thousands of traditional auto manufacturing jobs in Germany being at risk due to the displacement of combustion engine vehicles from EVs. I guess one could make the argument that China is in a bit of a unique situation given the ascendance of the EV industry presents such a massive outsized opportunity for the Chinese economy, both in terms of local sales as well as exports. Combined with the fact that the combustion engine vehicle market in China had historically mostly been dominated by international players, the sheer opportunity for market growth from EVs might simply outweigh a lot of other risks and opportunities. But overall, this is a balancing act that every car manufacturer will have to face.

Mike Disabato:

It's a balancing act that will likely force the S-pillar and the E-pillar into some punishing moments where the needs of an economy come into conflict with that of an individual worker. And for companies, the winner of that conflict might simply be the one that has the best communication practices with its employees. Or the one that is able to integrate the needs of an EV market best into its current company structure, without the need for morale or town destroying closures of massive facilities of production. But, who knows? I myself am not prescient, but I was hoping maybe Yu might be. And so I asked him where he thought this was all going to end up.

Yu Ishihara:

So how does this play out? I can't say for sure. I can certainly envision a world where the strikes continue for a little longer as the UAW and automakers continue to negotiate. But I mean, bear in mind, the UAW can't fund striking workers forever, especially as we're seeing increasing layoffs. And don't forget, longer term, prolonging the strikes ultimately means less revenues and earnings for the car makers, which would mean less money to invest in the climate agenda and the workers themselves. So I think it's reasonable to expect some sort of resolution as it's in the best interest of everybody involved. However, it will be interesting to see where and how both sides are willing to make additional concessions. I think the eventual resolution could eventually be seen as a type of precedent on how to balance the climate agenda, social issues and politics to drive a just transition for the automobile industry.

Mike Disabato:

An overwhelming majority of auto companies in our coverage have some sort of climate target in place, and EVs are the best way to reduce emission from auto. So it's likely that this is going to be a long-term problem for the auto industry. There's just no way around the fact that less workers are needed to make EVs and it's likely the internal combustion engine is going to be a sunset technology. Now, how these changes play out on a company level will likely be a regional discussion, with some companies working with governments better to help transition workers that make up their communities away from the economy that was the old to the new and some companies doing worse. So to echo Yu, the way this plays out will indicate how the industry may look after a decade of change.

And that's it for the week. I want to thank Yu for discussing the news with me with an ESG twist, and I want to thank you so much for listening. If you like what you heard, don't forget to rate and review us. That really helps on getting us up higher on the podcast lists. And if you want to hear myself or the other hosts of ESG Now every week, just subscribe wherever you get your podcast and that will be a reality. Thanks again and talk to you soon.

Speaker 3:

Thank you.

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