

United Auto Workers: Critical Test at Volkswagen

- 1,500 workers at the Volkswagen plant in Chattanooga, Tennessee could alter the course of the auto industry this week as they decide whether to unionize. We see the United Auto Workers as underdogs to pull off the victory, but it's a very close call.
- **Investment significance:** Should the UAW succeed at Volkswagen, it may be able to replicate that formula in similarly-situated companies such as BMW, Daimler, Hyundai, and Toyota. Separately, the state of Tennessee could take a hit as a desirable destination for manufacturing.
- The election is a key test of whether the UAW can finally make inroads into southern "right to work" states where non-U.S. automakers have put down roots in recent decades. The lower labor costs of those states have been an important magnet. Should the UAW fail, it will reinforce the trends that have reduced its membership to a quarter of its peak in 1979.

VW Throws Arms Open, But Will Workers Agree

The number one advantage for the UAW is that Volkswagen has taken a neutral-to-positive view of the union coming. VW has also helped circulate the legally-uncertain notion that the union will operate as the softer-touch European model of a "works council." That gives the union a huge leg up in a region that has typically rejected unionization.

The number one challenge for the UAW is its association with President Obama and liberal causes generally. In Michigan and the Rust Belt generally, those associations are positive or no worse than mixed. However, in conservative, rural eastern Tennessee they are toxic. Republican elements from inside and outside Tennessee, including the sitting governor and U.S. Sen. Bob Corker, have urged the VW plant workers to reject the union. Outside groups have weighed in with advertising telling the workers that their dues money will go to support Obamacare, gun control, and other hot-button issues likely to be unpopular with the workers.

The number one tea leaf to gauge the likely outcome of the election is the fact that the UAW called the election, meaning they're likely to have a high degree of confidence that their organizing efforts (they have been working the facility for years) are ready to pay off. However, that tea leaf is offset by the weak position of the UAW financially and with its decades-long slide in membership. It may be that the UAW is confident, or it may be desperate. The election could most certainly go either way.

Uncertainty As Major Fallout

The major fallout if the UAW wins would be uncertainty across southern industrial concerns as they rush to take stock of their workers and their

Relevant Tickers

*VOW.FRA, BMW.FRA, DAI.FRA,
F, GM, TM, HMC, F.BIT,
VOLV.STO, and Hyundai.*

vulnerability to unionization. It's unlikely that many plants in right-to-work states will unionize. But some undoubtedly would, in the face of a stepped-up offensive from not just the UAW but other unions as well.

Timetable for the Election

Workers at the Chattanooga Volkswagen plant will vote today through Friday on whether or not to bring in the United Auto Workers for collective bargaining purposes. On Friday, however, plant operations will be on idle, meaning the overwhelming majority of votes will be cast today and tomorrow.

The results could be tallied within a few days, unless there are irregularities or some other dispute breaks out, which could delay the results for some weeks. However, we would expect the results to be announced by the National Labor Relations Board next week.

Outlook for the Election

We believe the workers are more likely than not to reject the union, at a 60% likelihood, but it is a close call. Most observers are professing uncertainty regarding the outcome of the election, and with reason - union elections are notoriously difficult to call.

A sign in the UAW's favor is that they chose to call for the election. In general, that should mean the union is confident of having the votes. The caveat to this point, however, is that the UAW's membership decline and cash troubles may have led it to roll the dice now rather than continuing to organize against an uncertain future window.

In other words, the UAW may not believe it has a great shot right now, but that this may be the best shot in the near term. It's also the case that UAW President Bob King is retiring this June, and has an incentive to break into the southern auto plants now, as his career capstone.

Calling for a vote is not done blindly. Union organizers typically must get workers to sign check cards endorsing the union. Under U.S. law, the union must get at least 30% of the workers to sign such cards before an election can be called. However, union organizers are well aware that peer pressure may lead some workers to sign the check card, but vote against the union in the privacy of the voting booth.***

The standard procedure for union organizers is to get at least 70% of the workers to sign check cards before moving to the election, allowing for an attrition rate of nearly 30% of those workers who do sign the cards. If the UAW was able to get 70% of the 1,500 workers to sign off, they should be able to win the election.

The neutral-to-positive stance of Volkswagen on the election is an enormous aid to the UAW as well.

***This captures the significance of the "card check" debate from 2009, where congressional Democrats in Washington briefly considered passing a new federal law that would have allowed such cards to qualify for recognizing a new union. This would have eliminated the guarantee of a secret ballot

election for workers - a great boon to unions. However, the legislation was controversial and ended up shelved.

VW Squeezed by Unions in Germany, Creates Opening in Tennessee

In Germany, Volkswagen contends with a different matrix of labor laws than in the U.S. Unions are generally stronger there, and Volkswagen's union in Germany also holds a seat on the corporate board.

Years of pressure on the German front led to a pledge of neutrality regarding the UAW's organizing effort in Tennessee. This has allowed the United Auto Workers to organize freely at the plant, including having an on-site office and staff.

Southern workers have typically rejected organizing efforts, due as much to cultural clashes with the UAW as with the concept of being forced to pay the union to negotiate better wages.

However, with the United Auto Workers in a secular membership decline, it has finally been able to focus efforts to create the opportunity at Volkswagen. That move may be borne more of desperation than entrepreneurship, however. In the late 1970s, the UAW carried a membership of roughly 1.5 million. Today, that number is around 382,000 - barely 25%.

In 2011, King, the UAW president, said the union itself would not have a future if it failed to organize those non-U.S. automakers. The UAW has also been squeezed financially; where it once boasted a strike fund of \$1 billion, that reserve has been tapped down to \$600 million. The VW workers, if successfully organized, will help replenish that fund.

It may be that Volkswagen believes that the UAW has been chastened by decades of decline and truly will be a more effective lubricant between employees and management. In that sense, UAW's decline may have helped create the opening in Chattanooga.

Fallout If the UAW Wins at VW

According to VW and the UAW, a win by the UAW in the election will result not in a traditional union, but in a softer-touch "works council" as exists in Europe as a sort of in-between step. A "works council" doesn't negotiate wages and cannot strike.

However, U.S. law does not seem to have a provision for a "works council," meaning workers at the VW plant would, over time, be unionized in a manner analogous to workers at GM in Michigan or anywhere else.

More significantly would be the major burst of activism and enthusiasm by the UAW. The other German automakers, BMW and Daimler, would almost certainly see major initiatives at home to force them to be as accommodating as Volkswagen in Tennessee. The targets, among others, would include the BMW plant in South Carolina and the Mercedes plant in Alabama. Asian automakers such as Hyundai, Toyota, and Honda would see similar efforts in their home countries.

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Relevant Stocks

VOW.FRA, BMW.FRA, DAI.FRA, F, GM, TM, HMC, F.BIT, VOLV.STO,
and **Hyundai.**

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