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As automakers sputter, exec pay issue looms

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By Kevin Krolicki

DETROIT, Aug 3 (Reuters) - U.S. automakers are expected to ask for major health-care concessions in contract talks with the United Auto Workers, citing those costs as a disadvantage with Japanese rivals, but the union says the executive pay gap deserves scrutiny as well.

After the three Detroit-based auto companies posted a combined loss of about $15 billion last year, the focus of the high-stakes round of negotiations is on reducing labor costs to make the companies more competitive.

But who should take the pay cut? And how much -- if anything -- should senior executives have to give up?

The issue of how much each side sacrifices is likely to be one of the points discussed in talks between General Motors Corp. (GM.N: Quote, Profile, Research), Ford Motor Co. (F.N: Quote, Profile, Research) and Chrysler Group as the automakers look to replace a four-year labor contract expiring on Sept. 14.

For the UAW, hard-won benefits for its more than 180,000 members at the three companies are at stake.

"If Chrysler, Ford and GM are going to survive, some accord has to be reached," said Anthony Sabino, a professor of law and business at St. John's University. "The legacy costs of labor are killing the automakers."

The issue is timely because the Detroit automakers -- formerly known as the Big Three -- saw their combined sales slip below 50 percent of the U.S. market for the first time ever in July.

And more-nimble Japanese competitors, led by Toyota Motor Corp. (7203.T: Quote, Profile, Research), have a record of keeping a lid on labor costs for their U.S. workers as well as their most senior executives.

The U.S. automakers argue that past guarantees of expensive health-care coverage to UAW-represented retirees and spiraling medical costs have become a crippling burden that has to be reduced in this summer's contract talks.

The UAW has shot back that labor costs represent only 8 percent of the cost of an average vehicle. The union also says its members' wages have only kept pace with compensation growth across the U.S. economy in recent years.

The U.S. automakers say they need to bring blue-collar pay and benefits down from an average of $73 an hour to near $44, the average of Japanese automakers operating in the United States.

While that 40 percent hourly cost differential looms large, it is far smaller than the gap in senior executive pay for the Detroit Three and Japan's own Big Three.

A 2006 study by economists at the University of Indiana concluded that Japanese CEOs earn one-third of the pay of their U.S. counterparts. The economists used tax records to estimate the pay of the Japanese executives.

UAW President Ron Gettelfinger said last month as contract talks began, "Let the people coming forth who are so critical of what we make, start off by telling us what they make. And how does it also apply to management? Is there a differential?"

MARKET FORCES AT WORK?

Unlike U.S.-listed companies, Japanese corporations do not disclose individual executive compensation.

But Toyota's 25 board members made 3 billion yen for the past fiscal year, an average of roughly $1 million each.

At Nissan Motor Co. (7201.T: Quote, Profile, Research), with a Western influence at the top and Renault's (RENA.PA: Quote, Profile, Research) Carlos Ghosn at the head, nine directors split 2.5 billion yen, an average of $2.35 million each, excluding $9.5 million in share appreciation rights.

Their counterparts in Detroit made far more.

At the top of the heap, Ford reported total compensation of $28.18 million for Chief Executive Alan Mulally, who was wooed from a senior position at Boeing Co. (BA.N: Quote, Profile, Research).

At GM, CEO Rick Wagoner had total compensation of $10.2 million, including stock option and stock awards. His base salary was $1.28 million.

Chrysler CEO Tom LaSorda made $5.39 million in salary, benefits, bonus payments and stock awards, according to a filing by former parent DaimlerChrysler AG (DCXGn.DE: Quote, Profile, Research).

Despite the executive pay gap with Japan, compensation for U.S. auto industry chief executives -- including major suppliers -- remains lower than the average for the CEOs at other major companies.

In fiscal 2006, automotive industry chief executives earned a median of $7.1 million in total compensation, up 1.1 percent from the previous year, according to a survey by compensation tracking service Equilar.

By contrast, total compensation for all S&P 500 CEOs rose 6 percent to a median of $8.5 million.

University of Maryland economist Peter Morici said the issue with executive pay goes far beyond the bargaining table in Detroit.

"Even if you cut Wagoner's pay to $100,000 a year, health care will be so burdensome that they won't be able to compete," he said. "Addressing CEO pay is a systemic problem; the problem with health care is unique to the business."

But St. John's professor Sabino said the UAW was justified in raising the executive pay issue for balance.

"Both sides make valid points," he said. "The union makes a lot of sense when it says there has to be shared sacrifice."

(Additional reporting by Chang-Ran Kim in Tokyo, and Jui Chakravorty and Poornima Gupta in Detroit)

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