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BUSINESS

GM Battle Against Fiat Chrysler Faces Sizable Hurdles

Lawsuit needs to show alleged fraud tied to UAW talks had direct, negative effect on General Motors



Strong Jeep sales have helped Fiat Chrysler become more profitable than Ford. A Jeep Gladiator pickup on display in Shanghai this month. PHOTO: SUN YILEI/REUTERS

By Mike Colias and Nora Naughton

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General Motors Co. has accused rival Fiat Chrysler Automobiles [FCAU +0.20% ▲](#) NV of bribing union officials to gain a labor-cost edge, but winning damages could be difficult, legal experts say.

GM sued Fiat Chrysler last week, claiming the Italian-American car company purposely tried to hurt GM by paying off union officials to win more-favorable contracts with the United Auto Workers over the past decade. GM cited a long-running federal corruption investigation that has led to convictions of several union officials and guilty pleas from three Fiat Chrysler employees.

Fiat Chrysler plans to fight GM's lawsuit, which it said is without merit. The company, which last month agreed to a \$50 billion merger with PSA Group [PUGOY -1.46% ▼](#) of France, is in

negotiations with the UAW on a new four-year contract.

To win, GM will need to show that the alleged fraud that prosecutors say corrupted the collective-bargaining process between Fiat Chrysler and the UAW had a direct, negative impact on GM's business, legal experts say. These types of racketeering lawsuits face long odds and often are settled or dismissed before they go to trial.



A Ram pickup under assembly at a Fiat Chrysler plant in Michigan last year. PHOTO: REBECCA COOK/REUTERS

In a civil racketeering case, a court typically considers claims from only the primary victim of the alleged corruption, said Jeffrey Grell, an attorney who teaches about the Racketeer Influenced and Corrupt Organizations Act, or RICO, at

the University of Minnesota.

Mr. Grell said the people harmed most in the UAW-Fiat Chrysler corruption case are rank-and-file union members who ended up with weaker contracts because union leaders allegedly accepted bribes from the company, Mr. Grell said. Even if GM can show that wrongdoing by Fiat

Chrysler officials hurt its business, it will be difficult to prove that GM was the primary victim, he said.

“GM seems to be very far down that chain” of parties that claim harm by the alleged corruption, Mr. Grell said. “This case faces some unique challenges that make it even more difficult than a normal RICO claim,” he added.

In a written statement, GM said evidence of conspiracy and fraud from Fiat Chrysler officials in the corruption case “identifies how FCA’s bribes directly harmed GM.” The company expects to turn up more evidence during the discovery process, it said.

GM’s lawsuit alleges Fiat Chrysler, by bribing union officials with money and gifts to win more-favorable contract terms, “inflicted massive direct damage” on GM by allowing its rival to benefit from lower labor costs. The companies compete head-on across many categories of the U.S. auto market, including large pickup trucks, which generate much of their profits.

GM claims the criminal activity was authorized by then-Chief Executive Sergio Marchionne, whom it alleges directly targeted GM in an attempt to weaken the company and force a merger. GM rebuffed Mr. Marchionne’s merger advances in 2015, a few months before Fiat Chrysler signed a four-year labor contract with the UAW. Mr. Marchionne died last year.

JPMorgan Chase estimates GM could seek damages of at least \$6 billion, though it said the case could take years to play out.

Because damages in civil racketeering cases can be heavy, defendants often are motivated to settle to avoid mounting legal costs and the risk of losing, said John Kip Cornwell, a law professor at Seton Hall University who has focused on RICO lawsuits. The lawsuit alone can be damaging to the accused party’s reputation, he said.

Fiat Chrysler, historically the smallest and financially weakest of the Detroit auto makers, rebounded from its 2009 bankruptcy to reap solid profit growth in recent years. The company shed the last of its bankruptcy debt in 2018 and has released a string of successful trucks and sport-utility vehicles, helping boost its North American operating-profit margin to above 10%, on a par with that of GM.

Strong sales of its global Jeep brand and its lucrative Ram pickup-truck business in the U.S. have helped Fiat Chrysler surpass rival Ford Motor Co. in profits and become a more-direct competitor to GM. Ram this year is on pace to outsell GM’s top model, the Chevrolet Silverado pickup truck, for the first time.

Fiat Chrysler also is set to strengthen its hand globally through its planned merger with Peugeot maker PSA, a deal that would create the world’s third-largest car company by sales, leapfrogging GM. Volkswagen AG ranks first by that measure, followed by Toyota Motor Corp.

A GM spokesman said the timing of the lawsuit was unrelated to the Fiat Chrysler-PSA deal or its contract talks with the UAW. GM filed the suit last week because a four-year statute of limitations on civil RICO cases was set to expire, the spokesman said.

Still, Fiat Chrysler's surge, along with the UAW's recent 40-day strike at GM that cost the company an estimated \$3 billion, likely has the Detroit auto maker more worried about its Italian-American competitor, Jefferies analyst Philippe Houchois wrote in an investor note on Friday.

"GM came across as defensive, seeking compensation for a costly strike, potentially trying to disrupt a pending FCA/UAW deal and no longer seeing FCA as the 'weak link' " among the three Detroit companies, Mr. Houchois wrote.

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