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Union showdowns

Companies are after union concessions to stay competitive

John Greenwood, Financial Post

There's nothing like tough times for showing up a company's weak spots, and the current financial crisis is a prime example. In the face of the most challenging economic conditions in 50 years, companies across the spectrum are scrambling to bolster competitiveness by rooting out inefficiencies, and increasingly they're honing in on outdated labour agreements that are either too restrictive or simply unaffordable.

The Big Three auto makers were first up. With sales in free-fall, General Motors, Chrysler and Ford are finally confronting -- with some prodding from government -- a problem that has bedeviled them since the 1980s, when leaner, more aggressive Japanese carmakers first gained a foothold in North America.

Last week, Air Canada signalled it, too, wants to re-engineer its labour contracts by re-hiring a veteran trouble shooter as its new chief executive. Calin Rovinescu, a former Stikeman Elliott partner and co-founder of Genuity Capital Markets, previously held several senior roles at the air carrier and brings with him a well-deserved reputation for making hard decisions at corporate restructurings.

"I don't think there is any industry outside of government that is not facing cost issues on a daily basis," said Jason Clemens, a senior fellow at the Fraser Institute. "Even in sectors that are holding their own, companies are trying to figure out how to cut costs, how to save money."

Since labour tends to be one of the biggest expenses for most companies, it's understandable that the level of scrutiny is increasing, Mr. Clemens said.

Companies facing the toughest problems are typically in heavily unionized sectors, where labour agreements are often contentious and highly polarized.

"If you're in a non-unionized firm, you are able to engage your employees directly in terms of how can we improve productivity and cut costs," he said. "But if you're unionized, you've got a major first step to deal with, because you have to negotiate with the union. Once you've convinced the union that you need to open up a contract -- which is in itself a fairly large hurdle-- you've got to convince the workers that the changes you want are necessary."

Not surprisingly, corporate leaders avoid crossing swords with their unions unless they're forced to. Still, Canada has its share of CEOs who have gone up against powerful unions and won.

In the wake of the tech crash at the start of the decade, Telus Corp. chief executive Darren Entwistle took on the Telecommunications Workers Union and soon found himself at the centre of a bitter, high-profile feud that dragged on for years.

The Vancouver-based phone company was staggering under the weight of generous labour contracts and debt from an ill-timed acquisition.

After the picket lines went up, the union took out a billboard across from Telus headquarters, demanding that the company board fire Mr. Entwistle, recalls John Mortimer, president of the employer-backed Canadian LabourWatch Association.

Mr. Entwistle "was extremely hands-on," says Mr. Mortimer, adding that the Telus chief executive took up a position behind the picket lines, welcoming employees who crossed over.

In the end, the company got many of the concessions it wanted and it is today one of the most successful players in its sector. "I don't think there is any question that [Mr. Entwistle] was successful," said Mr. Mortimer.

Catalyst Paper, another British Columbia company, recently persuaded workers at its mill at Port Alberni on Vancouver Island to accept wage concessions -- no easy feat considering the generally acrimonious relations between the B. C. forest industry and the unions.

The new agreement "basically saved the mill," said Bank of Montreal analyst Stephen Atkinson. "They're now competitive with the rest of North America."

Catalyst is one of the few Canadian forest companies successful at negotiating contract concessions, with much of the credit going to chief executive Richard Garneau.

Given the sharp decline in commodity prices, many of Catalyst's competitors are under huge pressure to do similar deals with their unions but they have a tough road ahead, according to Mr. Atkinson, who predicts a wave of bankruptcies in coming months.

Another heavyweight is New Brunswick-based Irving Oil, one of Canada's leading energy companies with operations across Canada and parts of the United States. Back in the mid-1990s, the company, owned by the Irving family, endured a 27-month strike, eventually forcing the union into an about-face. Like much of the rest of the Irving empire, Irving Oil enjoys a well-deserved reputation for being a tough negotiator.

The bottom line is that today "they are highly competitive and they're a non-union shop," said Mr. Mortimer.

For generations, the maritime industry has been a labour bastion with employers often held hostage to union demands. The Port of Vancouver, the country's largest port, is no exception but many insiders are betting things will improve following the appointment of Andy Smith as president of the B. C. Maritime Employers Association.

Mr. Smith proved himself a smart negotiator as a vice president at grocery giant Westfair Foods Ltd. and later at Pacific Press in Vancouver.

"He is a guy who has been through some fairly contentious bargaining very successfully," said a labour lawyer who asked not to be named.

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