The Boeing blueprint for dealing with organized labor

Employer strategies in a changing slow-growth economy

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How are US employers approaching the economic recovery and what strategies are they using particularly regarding unionized workforces?

Boeing Company's recent – and successful – manipulation of bargaining-table "leverage politics" presents at least a partial answer. The company's negotiations with its local Puget Sound, Washington-based District 751 of the International Association of Machinists (IAM) and the district's international parent signal a present-day shift in collective-bargaining strategies and tactics from both sides.

This shift, at least in Boeing's case, is based on factors including leveraging the slow growth of the US economy and resulting job-security issues among USA workers generally and Boeing workers in particular, along with the divided age composition of Boeing's workforce to achieve market-share competitiveness with Boeing's chief global rival, Europe-based Airbus Industries.

Accordingly, and although in the midst of recent and quite favorable production and stock market successes, Boeing – in examining both its past and future – took a counterintuitive approach in negotiating strategies with its 2013 IAM "reopener" negotiations involving the future production of the 777X airliner.

In examining these issues, of paramount concern is the slow rate of recovery of the US economy. Although the employment outlook for the first quarter of 2014 held steady, an improvement over the lows of the 2007-2009 recession, it lagged far behind the expansive growth that existed during 2005-2006. However, the outlook for growth in the manufacturing industry is more positive, particularly in aerospace.

While Boeing's delivery of commercial aircraft increased in 2012 and 2013 and most likely will increase again in 2014, the company is staking its growth over the next several decades on its new 777X, a variant of the current 777, designed to compete with the Airbus 350. Boeing Commercial Airplanes chief executive Ray Conner has refocused the company's strategy to regain market share against Airbus. Part of this includes improving service and lowering costs, including the cost of its union labor.

Boeing history and its IAM labor relations

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> **"Boeing envisions the manufacture of its 777 to set the foundation for the companys growth over the next 20-30 years, and views as essential smooth (or strike-free) production of the aircraft to enable it to more effectively compete with Airbus in the global passenger-aircraft market for the foreseeable future."**

passenger-aircraft market for the foreseeable future. However, the rocky, strike-prone relationship with the Puget Sound IAM District Lodge 751 that Boeing has weathered for more than 50 years may stand in the way of this.

The current collective bargaining agreement (CBA) between Boeing and IAM District Lodge 751 expires in 2016. Like most US union contracts, the Boeing CBA contains a no-strike provision, which prevents covered employees from engaging in strike activities during the contract term. The current contract was executed following a 57-day strike by the IAM over issues including the elimination of its traditional defined benefit (DB) pension plan and its replacement with a 401(k)-type retirement plan, which is a defined contribution (DC) plan. The IAM-Boeing DB plan has been a key feature of the union's contracts with Boeing since 1955. It has been part of the reason for a number of strikes since then. Almost half of Boeing's Puget Sound workforce is aged over 50 and views the current plan as non-negotiable.

The 777X is expected to be Boeing's last major aircraft-development effort until at least the mid-2020s. Boeing has used its decision on where to manufacture the aircraft and its new technology composite wings as leverage in seeking CBA concessions it has been unable to achieve in the past and perhaps may not be able to seek again for many years to come.

For both Boeing and its Puget Sound workforce, the stakes surrounding the manufacture of the 777X are enormous, representing, among other things, around 8,700 new Boeing jobs.

Last autumn, with the 2017 launch of 777X production clearly in mind, Boeing officials first proposed an eight-year extension of the current IAM CBA through to 2024. The length of the extension aimed to:

- ensure the strike-free launch of the 777X;
- engage in early negotiations with the IAM during a period when the CBAs no-strike provisions remained in effect, thus stripping the IAM of its most potent negotiating weapon; and
- exercise perhaps the strongest leverage in Boeing's history of IAM negotiations to achieve the long-standing holy grail on its wish-list of contract negotiations demands – the elimination of the IAM DB pension plan by replacing it with a 401(k) DC plan.

The proposed extension was accompanied by additional things that Boeing wanted to achieve, including increased employee health and welfare-payment contributions and wage increases averaging 0.5 per cent between 2016 and 2024.

Boeing has long sought to modify, if not eliminate, its DB pension obligations as set forth in its Puget Sound IAM CBA. Essentially, DB pension plans are those in which an employer guarantees a specific monthly retirement benefit payment to each employee–participant that is based on an employee's earnings, length of service and age at retirement. Because future benefit levels are set in DB plans, their costs may fluctuate radically, based on current economic conditions. Market conditions can have a tremendous impact on such

plans and create serious uncertainty among employers, like Boeing, that have enormous DB pension plan obligations.

As reported on the IAM District 751 Web site, the Puget Sound workers overwhelmingly rejected this proposal on November 13, 2013, by a two-to-one margin.

Boeing had previously announced that the future 777X production in Seattle hinged on tax relief by the State of Washington and ratification of its contract offer by IAM members. Although many union members saw Boeing's threat to look outside of Puget Sound for other 777X production locations as nothing more than a bluff, the company has, in the past, fulfilled threats to build new manufacturing facilities in states other than Washington.

Obviously viewing this threat as more than a bluff, the IAM International Union representatives prevailed upon Boeing to reopen negotiations with the IAM for a contract extension. In those negotiations, Boeing agreed to modify its previously rejected proposal in several respects. Its wage increase and pension proposals, however, remained unchanged. By the time of its "best and final counterproposal", a bidding war had begun when Boeing, as promised, opened up competitive bidding from other states. By December 13, 2013, Boeing said that it was reviewing bids for the 777X production work from 54 cities in 22 states, with some states proposing multiple venues.

Boeing proposal splits local and international IAM union representatives

When IAM District 751 failed to ratify its November proposal, Boeing was handed an unexpected gift – a rift between local union officials of District 751 and the international representatives of the IAM. Although adept at playing wedge politics in its collective bargaining, this time Boeing enjoyed a wedge it did not engineer itself. On one side was a militant local union that refused to concede hard-fought gains over the years regarding its DB pension plan. On the other were international IAM representatives who took Boeing's threat to move production more seriously, potentially taking thousands of jobs and with them, substantially reducing or eliminating union dues estimated at more than $25 million a year. The international IAM set a revote for January 3, 2014.

This vote, perhaps not the final chapter in this ongoing saga, produced a razor-thin approval by District 751's membership. Only about 600 votes separated the "yes" from the "no". While younger workers purportedly were more concerned about job security and keeping the work in the Puget Sound area, older workers, more concerned with the pension plan's elimination, were allegedly "dead set" against Boeing's revised offer.

The job-security concerns, particularly of younger Boeing workers, however, were well-founded. By accepting the Boeing contract offer, they assured themselves that Boeing would build its new 777X and its composite wings in the Seattle, Washington area, where Boeing has built aircraft for more than 90 years with its preferred, highly skilled workforce.

Best practice in preparing for union contract negotiations

The Boeing/IAM bargaining scenario will doubtless be analyzed for years to come. It boils down to the convergence of several significant factors – the "perfect storm" that presented itself during Boeing's negotiations with its machinists' union. Boeing has developed a stellar

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blueprint for employers facing union contract negotiations with firmly established goals – and achievable results – in mind. While every set of union contract negotiations presents its own issues and challenges, there is no substitute for careful analysis and advanced strategic planning on how best to achieve the desired results in negotiations, with as little disruption to operations as possible.

Factors employers should consider in developing a strategic plan for negotiations include:

- Timing issues, including whether the contract expiry is consistent with operational needs and whether advanced preparations are in place to begin negotiations 90 days before the CBA expiry.
- Economic issues, including how health welfare/pension or retirement costs have increased over the years, whether the union pension fund is currently underfunded and what is the employer's current withdrawal liability.
- For health insurance, can a union trust fund plan be replaced by a private insurance plan with better benefits at a cheaper cost?
- For wage increases, what are the cumulative costs of an increase over the life of a contract? For example, a 3 per cent increase over the life of a three-year contract can result in an 18.4 per cent cumulative cost increase.
- Do the employer's and employees' interests align in a way that can be leveraged to achieve important goals in negotiations?

In summary, there is no substitute for early strategic analysis of bargaining goals and strategies, particularly with respect to economic bargaining issues. A well-defined bargaining plan is the most likely key to success in any set of union CBA negotiations.

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Further reading

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