

At Boeing, Contract Vote Is a Test of Union Stre

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A 777 jet at Boeing's facility in Everett, Wash., where union workers hope to build the planned 777X. *Bloomberg News*

EVERETT, Wash.— [Boeing Co.](#) BA +0.73%'s unionized workers were set to vote Wednesday on a contract that could have a far-reaching impact on relations between America's biggest exporter and organized labor.

The proposed agreement is part of arrangements negotiated by Boeing with union leaders and state officials to win the aerospace giant labor concessions and tax incentives in exchange for a promise to build its planned 777X jet in its traditional manufacturing base here. The eight-year contract, which would cover the period after a current agreement ends in 2016, seeks reductions in pay scale, as well as shifting health-care costs and moving from a defined pension benefit pension to a 401(k)-type system of defined contributions.

Boeing has long envisioned making the 777X in Washington state, but has threatened to look elsewhere if members of the International Association of Machinists and Aerospace Workers, which represents more than 32,000 Boeing machinists, fail to approve the contract in Wednesday's vote.

The company, which has long battled its unions, opened a nonunionized factory in South Carolina in 2011 to build some of its 787 Dreamliners. People familiar with the company's planning have said it could move 777X manufacturing there, or to another spot in the U.S.—potentially placing portions or all of its two most important long-range jet programs in nonunion facilities. The moves could lead to eventual job losses as production of older models slows in the Puget Sound area that has dominated its commercial production.

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A contract rejection wouldn't necessarily spell doom for the 777X in Washington state and could prompt the company and the union back to the negotiation table to strike a deal.

But many workers have strongly criticized Boeing's proposed terms, leaving the likely outcome of Wednesday's vote unclear. The dispute has exposed discord within the union, including tensions between local members angry over Boeing's demands for concessions on pension and other issues—and its national leadership, which has been urging members to consider the deal on the grounds of creating jobs. Industrial unions have long been fighting declines in membership and contract concessions as companies put more jobs in states where it is difficult to unionize.

"I know that change is not easy, but by working together we have the opportunity to do something really special here, particularly in this community" Ray Conner, chief executive of Boeing's commercial airplanes unit, said Monday. Mr. Conner is a Washington state native who began his Boeing career as a machinist.

The vote comes days before Boeing is likely to officially launch the 777X, a major update to its strong-selling long-range jet, which has helped cement Boeing's role as the U.S.'s largest exporter. Boeing is widely expected to receive more than 100 commitments for the jet from fast-growing Middle Eastern airlines at next week's Dubai air show. Boeing expects to deliver the plane, which will hold 350 to 400 passengers, starting around 2020.

The 777X is expected to be Boeing's last major aircraft development effort until at least the mid-2020s, and Boeing has used its decision on where to manufacture the jet and its huge carbon-fiber composite wings as leverage in seeking concessions it may not be able to ask for again for many years.

Washington state Democratic Governor Jay Inslee on Monday signed an \$8.7 billion package of extended tax incentives, workforce development and permitting reform, all aimed at ensuring the 777X will be built locally.

Boeing in 2011 signed a four-year contract extension with the machinists union, known as the IAM, that guaranteed the single-aisle 737 Max would be built in unionized facilities around Puget Sound in exchange for wage concessions. It is now seeking additional concessions.

The contract would preserve pension accruals until the end of October 2016, at which point Boeing would move the workforce to a defined contribution plan. The plan would raise and cap the basic benefit pension at \$95 per year of service each month, and become available for employees over 58, instead of 60, starting in October 2016.

Under its new defined contribution plan, Boeing proposes contributing 10% of eligible pay each of the first two years of the contract, and 6% and 4% in the following two years, respectively, and 4% for the remaining years to machinists hired before the contract's proposed ratification. If the measure passes, new employees after Nov. 13 will receive 4% per year.

Boeing is also trying to keep wage growth tightly in check, extending the seniority scale and offering a cost of living increase and a 1% general wage increase every other year of the eight-year deal. If the machinists ratify the new contract by Nov. 13, they will receive a \$10,000 signing bonus.

At a rally of 300 to 400 union members here Monday, machinists voiced their deep opposition to the new proposed contract, which would extend from 2016 to 2024. Wilson Ferguson, a machinist and local union lodge leader, said if Boeing needs to adjust its benefits "then let's have that debate and let's have that discussion and have a true negotiation, but don't hold a gun to my head and tell me it's a good deal."

The union hasn't explicitly endorsed the contract. But some members have complained that the international union is pushing the deal, worried more about the potential impact that Boeing moving production could have on the broader labor movement than about the specific conditions for workers at Boeing.

The international union is urging local members "to think with their heads, whether that's a no or a yes [vote]," said spokesman Jonathan Battaglia, calling the decision "bigger than just [Local lodge] 751" and one that will "affect generations" of jobs in Puget Sound.

The union's local leadership has seemed to vacillate. Local IAM President Tom Wroblewski last week joined Gov. Inslee and Boeing's Mr. Conner at a news conference announcing the proposed tax incentives and the tentative contract agreement.

Then at a meeting with hundreds of union members Thursday, where criticism of the deal was rife, Mr. Wroblewski tore up a copy of the contract proposal, acknowledging its faults, according to people who were present. He then appeared again on Monday with Mr. Inslee and Mr. Conner at the signing of the legislature's bill endorsing the tax cuts for Boeing.

At that event, he said—without endorsing the deal—that the proposed 1.5 million square feet of expanded factory space for 777X illustrates that "the company has shown its commitment to invest in our future. This could be a game changer, job growth is what Washington needs and it's what our families need."

Spokesmen for the union local in Seattle referred comment to the national IAM spokesman, saying they are no longer permitted to speak to the media.

Such a divide inside a union is rare, said Gary Chaison, professor of industrial relations at Clark University, because unions "generally close ranks when they are in a dispute" with management.

But Mr. Chaison said Boeing has been "awkward" and "clumsily militant" with its threats that have quickly overheated the union members and suggests that if a contract fails, it could set up the conditions for a work stoppage in 2016.

Carter Copeland, of Barclays Capital, estimates Boeing's companywide pension liability to be around \$76 billion and currently underfunded by about \$20 billion, with Boeing contributions varying anywhere from \$500 million to \$3 billion annually. Mr. Copeland estimates the pension contribution accounts for about two percentage points of the 10% to 15% of the total labor cost to run Boeing's commercial unit, including research and development costs.

"At some point the pension structure is going to have to change," said Mr. Copeland.

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