BEYOND COLLISION: HIGH INTEGRITY LABOUR RELATIONS

NORSKE CANADA – CEP CASE STUDY[1]

Darcy Shenfield and Allen Ponak[2]

By the 1990s, the British Columbia pulp and paper industry had a well-earned reputation for some of the most acrimonious labour-management relations in Canada. Following a bitter strike in 1997, Fletcher-Challenge's labour relations on the west coast were among the worst in the industry. Today, the merged operations of Fletcher-Challenge Canada and Pacifica Paper, known as NorskeCanada, have undergone a dramatic turnaround in labour-management relations. The change is the product of new management and ownership working with the Communications, Energy, and Paperworkers Union (CEP) to establish a relationship that is maturing and is still best described as a work in progress. This case study looks at how the turnaround was achieved with special attention directed to the Powell River mill, formerly owned by Pacifica Paper, where the majority of the interviews were conducted.

Management and Ownership Changes

Local union leaders and CEP executives long maintained that if company ownership and management were willing to work with them, instead of against them, industrial relations at Fletcher-Challenge could recover and flourish. The December 1999 hiring of Russ Horner, who started his career as a chemist working with unionized

---

[1] This case study is based on interviews and company and union documents. The Norske-CEP story is featured in the documentary film "Beyond Collision: High Integrity Labour Relations" produced by Bert Painter and Allen Ponak. For film information , visit www.moderntimesworkplace.com

[2] Darcy Shenfield is a doctoral student specializing in human resources and organizational dynamics in the Haskayne School of Business, University of Calgary. Allen Ponak is Professor of Industrial Relations in the Haskayne School. The authors would like to thank Norske management and CEP representatives for their cooperation and insights.

employees in BC pulp and paper mills, as President and COO of Fletcher-Challenge Canada (FCC) put the CEP's views to the test. Mr. Horner was committed to improving industrial relations while returning profitability to FCC.

In the commodity business of newsprint production, customers demanded low prices, consistent quality, and security of paper supply. Profitable mills and stable jobs were crucial to improving labour relations, but *how* FCC became competitive was equally important. Mr. Horner's solution was to go back to the basics: "Be a good listener, treat people with respect, don't lie or cheat, keep your word, take responsibility, be safe and productive, help your neighbours when you can, and play fair." These basic mottos developed into a clear set of values that were intentionally not seen on office walls: "We don't tell people what our values are, we live them." In summary, Mr. Horner's vision was to "make Fletcher-Challenge a company that people would be proud to work for, proud to wear the company logo."

Horner's vision received a boost in May of 2000 when the Norwegian paper giant, Norske Skog, purchased Fletcher-Challenge of New Zealand, acquiring Fletcher-Challenge Canada in the package. Norske Skog, based on its Scandinavian roots, encouraged strong, values-driven management and cooperative relationships with workers and unions. That was the backing Horner needed. In 2001, he promoted Jess Beaman from VP/General Manager at Crofton Division to Senior Vice President of Operations at head office. Ron Buchhorn was enticed back to the forestry industry as Vice President of Corporate Services, which included labour relations in the portfolio. The three leaders shared the vision that union workers needed to be worked with, not against.

In March of 2001, Fletcher-Challenge Canada acquired Pacifica Papers Inc. The deal resulted in the divestment of the MacKenzie pulp mill in September 2001, leaving four pulp and paper mills, two from Fletcher-Challenge and two from Pacifica Papers, including the Powell River plant. The merged entity would now be called NorskeCanada. For the first time in 25 years, the four paper and pulp mills would be part of a publicly-traded, Canadian-controlled corporation, with Norske Skog owning 30% of the shares.

The newly independent NorskeCanada began aggressively implementing the senior management team's vision in 2001. Though interested and attentive, CEP leaders wondered if the philosophical changes espoused by management were about to become practical, shop-floor initiatives or if the ideals would be lost in translation.

Powell River

Even though the Powell River plant was not part of the 1997 Fletcher-Challenge strike, there was no doubt that labour relations were very acrimonious. The plant had been making paper on B.C.'s sunshine coast since 1912 and was at one time the largest newsprint producer in the world. Between 1980 and 2000, Powell River's fortunes had declined dramatically. The plant went from ten papermaking machines to three and from 2100 employees to 1000. Layoffs, combined with an autocratic, command-and-control style of mill management gave Powell River a reputation among unionized workers as the worst mill in the worst company in the worst industry in British Columbia.

The new senior management team at NorskeCanada knew they needed fresh leadership at Powell River to implement the company's new vision. Brian Johnston was promoted from Senior Manager at Crofton to Site Vice-President at Powell River and Ed Doherty was relocated to become the Director of Human Resources at Powell River.

Brian recalls the mill's reputation when he took the position: "All that was bad about pulp and paper industrial relations was encompassed in Powell River." Ed recalls that the relationship with the union was confrontational and they "had to resort to third parties to resolve almost everything."

The union leaders at Powell River were long-time employees Mike Verdiel and Gary Thorsell. Mike had been President of CEP Local 76 (pulp mill, maintenance, utilities, general services workers) for 13 years and had been an employee at Powell River since 1973. Gary began his employment at Powell River in 1980 and had been the President of CEP Local 1 (paper-makers) for the past six years. The existing union leadership and the new management leadership at Powell River were about to be dramatically impacted by a decision at NorskeCanada's head office.

Pulp Mill Closure at Powell River

In September of 2001, CEO Russ Horner made the trip from his Vancouver office to Powell River to announce that the kraft pulp mill, which was part of the Powell River complex, was closing because it was no longer competitive in the marketplace. Along with the closure of the Woodroom and Groundwood mill, three hundred of the 1000 employees at Powell River would be laid off, all from local 76. Union workers had become resigned to similar messages in years and decades past. What they didn't expect, was what Horner said next: "Every employee of the mill will have a job or will have a package that they accept." There would be no involuntary layoffs. The options included: (1) Relocating to one of the other three NorskeCanada mills on Vancouver Island, which had not been filling vacant positions for six months to accommodate the Powell River workers, (2) Early retirement packages, (3) Severance packages, (4) Apprenticeship programs, after a 14 year absence from the plant, and (5) Re-training packages in forestry or other industries. NorskeCanada also contributed $3 million toward economic diversification in the community of Powell River. The closure cost the company $10 million dollars more than if they had simply met the conditions of the collective bargaining agreement (CBA) currently in force with its union.

Union Local 1 President, Gary Thorsell, said: “NorskeCanada had done their homework. They did it as painlessly as possible.” The Local 76 union executive proposed another idea to management to reduce the pain: If their membership throughout the entire plant went to a 37 ⅓ hour work week they could save another 18 jobs. Management and Local 76 President, Mike Verdiel, worked together and agreed to implement the change. The result was that Local 76 day workers received every third Friday off as a Designated Averaging Day (“DAD” day) to average 37 ⅓ hours over the period. (Shift workers in Local 76 work a modified shift rotation that similarly averages 37 ⅓ hours, leaving the mill with two different shift rotations between Local 1 and Local 76 – a challenge both management and hourly employees are committed to make work.)

Ironically, the union leaders saw the closure of the Powell River kraft mill and the loss of 246 union jobs as the real turning point in labour relations with NorskeCanada. Gary commented on “the respect they gave our people,” citing the experience as “the first time we have seen any company live up to those values.” They recall that “the union was waiting to see the true colors of the company, but with the way the downsizing was handled, involving the union and demonstrating a different philosophy, members were convinced.”

Commitment to Safety Improvement

The next step forward was the tackling of safety issues. Powell River had the worst safety record in the B.C. pulp and paper industry. At the end of 2001, a corporate-wide initiative was undertaken to improve the safety record at all four NorskeCanada mills. To revolutionize the way management and employees approached safety, a representative group of 70 people (hourly workers, union executives, supervisors, managers, and corporate executives) from all four mills developed a set of six core values and beliefs regarding safety:

1) All injuries can be prevented.
2) Safety has overriding priority.
3) Involvement in safety is essential.
4) Safety is a line responsibility.
5) Safety is built into every job.
6) Success in safety is contagious.

The first value that '*all injuries can be prevented*' was a new concept to both management and workers. It was generally accepted that injury rates could be improved, but not eliminated. Therefore, injuries would always be part of the job. The new mindset was backed up by the second value that '*safety has overriding priority,'* even over profits. CEO Horner confirms that "no business performance will have any joy if we injure people in the process."

The new focus on safety was embraced by union leaders and the workforce. At Powell River, four elected officials now worked full-time on safety issues while on the company payroll: two from CEP Local 76 and two from CEP Local 1. The union safety leaders worked with the company Safety Manager, the HR Director, and the Site Vice-President to implement 'world class' safety. Brian Johnson, Site Vice-President, personally introduced the safety initiative with dozens of half-day, small meetings involving virtually all employees, supervisors, union leaders, and managers.

The result in the first year at Powell River was a drop from 36 lost-time injuries in 2001 to 8 lost-time injuries in 2002. In July 2004, Powell River achieved a new record of six months without a lost time injury and finished the year with only four lost time injuries – another site record. The reduction in Workers Compensation Board rates alone more than paid for the costs of the safety program from 2001 to 2004.

By the beginning of 2002 the successful start of the safety program at all four mills and the concern and assistance for workers during the pulp mill closure at Powell River had begun the process of building goodwill between the new management team and union workers. The union now had concrete results of real change that were driven by management's new vision. Jess Beaman, SVP of Operations, acknowledges that the way management and union worked together "led to our working relationship that enabled the negotiations" for the upcoming round of collective bargaining.

Collective Bargaining in 2002

The emerging positive working relationship between NorskeCanada management and CEP union locals was tested when telephone directory customers started warning NorskeCanada that they did not plan to renew their supply contracts. During the bitter strike of 1997, production at the two mills of the then Fletcher-Challenge Canada was halted for nine months. Telephone directory and newspaper customers were able to switch to Pacifica Paper to fill their most pressing paper demands. Now NorskeCanada had merged the two firms and the collective bargaining agreement (CBA) was set to expire in 2003. Customers began warning NorskeCanada as early as 2001 that they would not renew their contracts for telephone directories because of the risk that a strike would completely cut off directory supply.

NorskeCanada management took the problem to union local presidents and to Dave Coles, CEP Western Region vice-president. Ron Buchhorn, responsible for industrial relations at NorskeCanada, recalled that: "Our relationship with both our employees and our unions wasn't solid enough that they would just trust us with that. So we engaged in a number of customer visits and we brought customers into our mills….Over a year, I think both parties came to the conclusion that we had to do something about bargaining early."

The concept of early negotiation was unprecedented in the industry for several reasons. First, the antagonistic relationship between companies and unions in the pulp and paper industry in B.C. not only didn't provide opportunity for early settlement but, as history dictates, would often end in a strike or lockout. Second, negotiations had traditionally followed a patterned bargaining approach, where the union chose the company it wanted to negotiate with. When agreement was reached with that company, the union would use the CBA to set a pattern for similar agreements with all the other pulp and paper firms in B.C. Early negotiation would reverse tradition by having NorskeCanada and the union jointly deciding to bargain first. Third, NorskeCanada would break away from the other firms in the industry and negotiate a deal solely based on their own interests.

In the minds of management and union leaders, the risk of breaking industry tradition was far outweighed by the crippling effects that un-renewed orders would have on NorskeCanada's operations and workers. Management offered a guarantee that they would not ask for concessions from the union during the bargaining process, but that it was 'now or never' for negotiations. With management's commitment to 'no clawbacks,' the CEP leadership was prepared to bargain early, but only if all 125 CEP local pulp and paper representatives from across the province were in the room to ensure a transparent bargaining process. The company agreed to this condition.

The union, led by Dave Coles, and management, led by Ron Buchhorn, jointly and within their own caucuses, spent weeks narrowing down the agenda items that would be discussed in negotiations. When they sat down in September 2002 they reached a deal in nine days. The success left everyone involved, on both sides, amazed. The result was a five year deal. It was a welcome success by management and a union worn down by decades of the old, acrimonious negotiations. For the first time in memory, families of the plant workers could plan vacations and house purchases under the security of a labour agreement that would not expire for almost six years. In addition, customer concerns over security of supply were erased and directory orders were renewed.

The ability for NorskeCanada and CEP to reach a five year deal can partially be attributed to the introduction of an innovative price trigger in the contract. The "Newsprint Price Trigger Bonus" clause provides a $500 bonus for each employee for every quarter that the newsprint price averages over $600 US. This price trigger allows union members to share in substantial revenue increases that may occur over the life of the 5 year CBA. If prices rise above $600 US, the first $4 million of the bonus will be directed to the worker pension plan to fund the pension bridge benefits from age 60 to 61. As a result, the supplemental benefit paid to workers who retire early would start at age 60 instead of age 61. All funds exceeding $4 million will be forwarded to union locals.

High Integrity Practices

It didn't take new leadership in the union to create the labour-management relationship, but it did take new management. In 2000, Horner's vision was to create a company that "people would be proud to work for." Four years later, Marvin Coe, Local 76 Safety Director at Powell River, says "I'm proud to be part of it". The remarkable turnaround in labour-management relations at NorskeCanada can be attributed to three groups of practices: interdependence, involvement, and operational excellence. Labour and management understand their interdependence in attaining common objectives of plant profitability and job retention. Those common objectives drive the sharing of information. With the involvement increased, union and management jointly raise operational productivity. Finally, operational excellence justifies the interdependence and involvement based approach to all stakeholders. The cycle repeats and builds upon itself.

NorskeCanada management and CEP union workers understand that they do not have the *same* objectives. In the traditionally adversarial system of Canadian labour relations, both sides recognize that every extra dollar of employee compensation may mean one less dollar for shareholders or for reinvestment. At the same time, both sides also understand that for either to be prosperous, their common objectives of plant profitability and job retention define an interdependent relationship between them. Each side respects the other's legitimate and important role in the operation of NorskeCanada's four pulp and paper mills.

Mutual respect and common objectives lead to engagement and involvement in the company. Ron Buchhorn, VP of Corporate Services, explains that the challenge is "moving from a highly directive organization [with Fletcher-Challenge and Pacifica Paper] to a high involvement organization [with NorskeCanada]." The key tool is having a cross-section of managers, supervisors, union leaders, and plant workers in meetings where they can share knowledge on plant operations and ideas for improvement. These meetings include quarterly executive group meetings, monthly business reviews, safety meetings, Senior Management Team meetings, customer visits, and morning updates.

The high degree of involvement and the related openness and transparency of company operations is leading to higher levels of trust on both sides. For example, management does not hesitate to ask union workers to represent the mill with visits to customer sites to discover how to serve customers better. Reciprocally, workers expect management to honestly disclose profitability and operational problems and to involve hourly employees to find solutions to the challenges facing the mill's operation and future.

The results of this different way of working are reflected in the grievance and arbitration statistics at Powell River. Mike Verdiel, President of Local 76, says that "grievances went down from 150 per year to about 6 per year" and he recalls only "one arbitration since NorskeCanada took over." Ed Doherty, Director of Human Resources at Powell River describes the reason for this success: "We're not interpreting language, we're not interpreting policy. We're trying to do the things that are right, based on the relationship between each other."

The Plant Manager at Powell River, Brian Johnston, takes trust and involvement to the next level: “I’ve invited Gary and Mike to all the regular meetings I have with the senior management team. I consider Gary and Mike to be part of that team.” Gary Thorsell and Mike Verdiel point out that this level of cooperation is not the co-opting of the union by management. The leaders continue to focus on their membership in all discussions. For example, if a meeting were to turn to discussion on sensitive issues, such as employee discipline, Mike and Gary may excuse themselves. The union’s perspective is echoed by CEP Western Regional VP Dave Coles: “When you work cooperatively, you have to do it with respect for each other’s positions. That is what both sides are endorsing right now. . . .There is a significant difference between working through issues and being co-opted.”

The intention for including union members and leaders in management meetings, according to Ron Buchhorn, is for workers to “know their costs and metrics around productivity, quality, costs, and safety.” Then everyone can contribute to becoming the low cost producer in the industry. NorskeCanada does not have a formal system of suggestions because they don’t find it necessary with their communication and involvement systems.

This high level of involvement by the people who are doing the work is what drives the operational excellence initiative. The first step in operational excellence is to ensure that all levels of management and workers in the organization understand how the business and the machines operate. At NorskeCanada, machine operators sometimes present the monthly business report at management meetings. The second step is identifying problems or opportunities and developing best practices to resolve them. The third step is taking those best practices to the other mills.

Two examples of the results of operational excellence each save the company hundreds of thousands of dollars per year. First, an hourly worker's idea resulted in the company reducing storage damage when shipping paper rolls by barge. The worker knew from long experience what would fix the problem and worked with management and engineers to design and test how to accomplish it. Second, the #9 machine at the Powell River mill now runs without the expensive, kraft pulp (kraft is a chemically-treated, long-fibre type of pulp). Workers and management have worked together to find a way to run the machine using cheaper, mechanical pulp through a process of trial and error over several months. Prior to this success, almost everyone in the mill believed that task to be impossible on the #9 machine. Now all the mill's paper machines benefit from this innovation and the cost-savings are millions of dollars per year.

Current Events

Although the extra costs from initiatives like the Powell River pulp mill closure and the new CBA have been exceeded by productivity improvements, internal progress has yet to be reflected in earnings or share prices. Share prices of NorskeCanada have generally followed the market price of newsprint. As the market price of newsprint rose from $515 per tonne in 1999 to a high of $575 in 2001, NorskeCanada (symbol: NS on TSX) share price rose from $6 per share to $7.50 per share. When the market turned down in 2002, newsprint prices dropped and remain below $500. The 15-20% drop in commodity prices resulted in net losses for NorskeCanada for twelve consecutive quarters and a decline in share price to less than $4.00 as of January 2005. This share price has also been impacted by the increased value of the Canadian dollar. Newsprint prices are in US$, but wages and other expenses are in CDN$. NorskeCanada's competitors have suffered a similar fate with their stock prices, as newsprint prices remain at the bottom of the business cycle.

In spite of weak commodity prices and earnings losses, management and union continue to be optimistic about the future. For example, in 2004 NorskeCanada made a $7.5 million capital investment in the Powell River plant. With the industry in a down period and no new investment at Powell River in years, this was a significant decision. Site Vice-President, Brian Johnson, says the decision was based on: "our performance, local municipalities reducing the tax burden, our safety performance, and our labour relations; the way our unions were prepared to work with us." Beyond the business case for such an investment, it signals the confidence that management has in the workers at Powell River.

Despite the dramatic improvement in labour-management relations, there are still many problem areas at NorskeCanada. According to union and management leaders, there are managers and supervisors, as well as workers and union leaders, who have yet to accept the new way of doing business. Two of the eight union locals generally don't participate in the new labour relations initiatives. Without everyone on board and with only 3-4 years of history of good labour relations against a backdrop of decades of bitterness, the new relationship remains fragile.

There are other practical issues that must be addressed including an aging workforce and shortages of trade workers. The difference today is that union and management are tackling those issues together. At the end of 2004, NorskeCanada is still a company in transition. As Jess Beaman puts it, the key to success is “staying the course.” When asked how he sees NorskeCanada three years into the future, Jess Beaman replies: “I think we can do as much in the next 3 years as we’ve done in these last 3 years.” Dave Coles sums “I think we’ll be ok. The real test will be if we get a new manager or if we get different senior management.”

Additional References

NorskeCanada website: http://www.norskecanada.com/default.pasp

CEP website: http://www.cep.ca/index_e.html