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Teamsters Reject 15% Cut in Pay for ABF Workers

By Rip Watson, Senior Reporter

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Teamsters union workers rejected a voluntary 15% pay reduction at ABF Freight System Inc. that the company had sought to bring its pay package closer to the one the union has with ABF's chief LTL rival, YRC Worldwide.

The company said it would now examine other cost-cutting steps to counter the cost advantages YRC has won from the same union.

ABF negotiated the pay cut with union leaders last month, after it lost money last year and in the first quarter, to lower costs that are the industry's highest. YRC won a 15% pay cut last year in exchange for stock options it granted to the union workers.

Teamsters union leaders had endorsed the pay-cut deal, but ABF employees voted against it, 3,764 to 2,936, the union announced on May 24.

After the announcement last week, both parties signaled they would take a fresh approach to help the carrier, whose operating loss was about $100 million last year.

"The union will regroup to determine if there are other means to protect jobs and benefits," said Tyson Johnson, director of the Teamsters National Freight Division.

Judith McReynolds, chief executive officer of ABF parent Arkansas Best Corp. said, without giving details, that the company will evaluate other options to address its cost structure and will discuss possible next steps with the union.

"It is unfortunate that our union employees have chosen not to participate in better aligning ABF's cost structure with those of its LTL competitors," she said.

The cost gap between the two national carriers extends beyond the 15% pay differential. YRC also has won union agreement to stop pension payments throughout 2010. In total, wage and pension savings are about $300 million a year, Chief Executive Officer William Zollars said last week.

If the employees had approved the plan, ABF would have saved $74 million annually by lowering the $23.66- an-hour wage for Teamsters union members. Its plan didn't include a pension reduction or the granting of stock options by the carrier.

ABF's recent losses reversed a pattern of profitability reflected in an operating ratio between 91.0 and 93.0 for most of the 2004-2006 period.

However, the carrier's 2009 operating ratio topped 110.7 and worsened to 110.0 in the first quarter.

Analyst Jason Seidl of Dahlman Rose & Co. said that YRC has a cost advantage now, but the ABF vote sends an ominous message about future pension contributions that YRC and the union have begun to consider.

“Union members are letting YRC know that it is going to be very hard to get [pension savings] done again.” Seidl said. “Any time you alter union pensions, that becomes a very difficult proposition.”

Seidl noted that support was lukewarm for the YRC pension cut that was packaged with a 5% pay cut last year, layered on top of a 10% wage cut approved earlier. Less than 60% of YRC Teamsters union members approved the second batch of cuts, compared with about 80% for the first round.

As YRC and the Teamsters union began to evaluate pension issues for 2011 and beyond, the Senate Health, Education, Labor and Pensions Committee held a hearing last week on a measure that would permanently reduce pension liability for both carriers.

The Senate measure would end the requirement that ABF and YRC make pension payments for so-called “orphans,” the workers at defunct carriers whose pensions those two companies are now funding.

Analysts had differing views about what else ABF could do to address costs.

“Arkansas Best continues to be the highest-cost producer,” Dahlman Rose’s Seidl said. “They can’t cut rates because they are not making money. They will have to look at cutting down the network. They might be able to raise prices selectively, but then they risk losing customers.”

Seidl noted that Arkansas Best has access to nearly $173 million in cash and short-term securities, which could cushion future losses.

This year, analysts polled by Bloomberg News have projected a loss of $1.26 a share, or about $33 million for ABF.

Seidl said ABF’s other options include layoffs, further reduction in its dividend or modifying the initial plan to make it more palatable with devices such as stock ownership.

Meanwhile, Jon Langenfeld, an analyst with Robert W. Baird & Co., said, “ABF now must rely on industry pricing improvement and federal legislative pension reform.”

However, Langenfeld cautioned that eliminating “orphan” obligations, which could save ABF at least $50 million, was “an uphill battle.”

As a result, he said, the company will have to count on raising rates. Each 1% improvement in its current pricing would add about $8 million a year to revenue, he wrote.

ABF has not said whether it will adjust nonunion pay and benefits because of the rejection vote.