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Basic Aluminum

Alcoa–Rockdale, Texas, and United Steelworkers of America Local 4895

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DESCRIPTION OF THE BUSINESS

Alcoa Inc. is the world's largest producer of aluminum and alumina and fabricated products. It is involved in all segments of the industry: mining, refining, smelting, fabricating, and recycling. In 2000, following a 1999 merger with Reynolds, Alcoa had approximately 140,000 employees with 300 operating locations in 36 countries. In 2001, Alcoa had approximately 142,000 employees in 37 countries. Alcoa's 2001 revenues were U.S.\$22.9 billion (Alcoa 2001).

Aluminum, an extremely abundant element, must be extracted from other substances. Bauxite is the basic physical raw material from which aluminum is obtained. Bauxite contains approximately 45 percent alumina, which is a powdery aluminum oxide that looks like white granulated sugar. After the alumina is removed from the bauxite, the aluminum and the oxygen are separated in an electrolytic reduction cell commonly called a "pot," in which the alumina is dissolved in molten cryolite and is reduced to metallic aluminum. The aluminum is then cast into large ingots or smaller molds called "hogs" or "pigs," which are suitable for remelting or fabricating (Alcoa 2001). This is called the aluminum smelting process. Plants that produce primary aluminum are commonly called smelters.

HISTORY OF THE FACILITY

Alcoa's Rockdale facility is located in Rockdale, Texas, a town of approximately 5,200. Rockdale is approximately 60 miles (100 kilometers) northeast of Austin and 144 miles (230 kilometers) northwest of Houston. The plant is a smelter, extracting aluminum from alumina, and also produces aluminum powder.

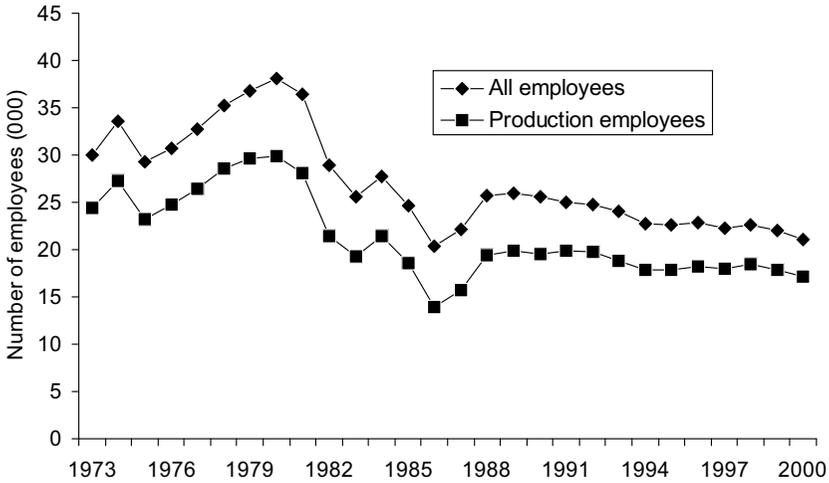
The plant's major customer is internal to Alcoa, an Alcoa flat-rolled aluminum plant in Davenport, Iowa. Among the major final customers for the aluminum produced at Rockdale are the aerospace industry and lithographic industry, which uses aluminum in lithographic plates. Aluminum powder is used in such products as deodorant, paint, metal pots, ordnance, and rocket fuels.

The Rockdale smelter was completed in 1952 as part of the United States' defense effort to maintain a large supply of aluminum for defense purposes. Electricity, the largest cost input to the aluminum manufacturing process, is used to provide power to run the facility and to extract the aluminum from the alumina. The smelter was located in Rockdale because of the presence of a large supply of lignite coal to provide electricity for the facility. There is a coal mine, called the Sandow Mine, that is adjacent to the Rockdale facility, and that provides coal to power the facility's electrical generators. Although Alcoa has always owned the mine and the power plant, until 1988–1989, Alcoa contracted the operation of the mine and power plant to the utility that served the Rockdale area. Alcoa has operated the mine since 1988, and the power plant since 1989.

It was believed that the Sandow Mine would provide a long-term supply of electricity. This was to be especially advantageous because it was believed in the early 1950s that the supply of electricity from water would soon peak, and other sources would be necessary. Although it is more costly to produce electricity from coal than from water, Alcoa believed that this cost disadvantage would be more than offset by adequate supplies of coal from the Sandow Mine.

Current employment (both salaried and hourly) at the site, including the mine, power plant, and smelter, is approximately 1,300. The peak employment at the site was approximately 2,000, reached in the early 1970s. As can be seen in Figure 5.1, this decline in employment

Figure 5.1 Employment in Primary Aluminum Industry, All Employees and Production Employees, 1973–2000



reflected the overall decline in employment in the primary aluminum industry in the United States over the past quarter of a century.

HISTORY AND BACKGROUND OF COLLECTIVE BARGAINING AT ROCKDALE

Of the 1,300 employees at Rockdale, 800 are hourly employees represented by United Steelworkers of America (USWA) Local 4895, 260 are power plant or mine employees represented by a local of another international union, and 240 are salaried and unrepresented. The focus of this case study is on the relationship between Local 4895 and Alcoa, although the relationship between Alcoa and the other local will be addressed as necessary.

Local 4895 was certified as the collective bargaining representative of the production and maintenance employees at Rockdale in 1953. In 2000, the employees represented by Local 4895 were covered

by a master agreement between Alcoa and the international union, United Steelworkers of America covering plants in Badin, North Carolina; Alcoa (Knoxville), Tennessee; Bauxite, Arkansas; and Pt. Comfort, Texas, in addition to the Rockdale employees. The parties have generally had a harmonious relationship. The only exception was a 35-day strike in 1986, from June 1 to July 4, that was called among all employees represented under the Alcoa–USWA master agreement.

As a result of that strike, Alcoa obtained additional flexibility in combining classifications and, therefore, restructuring the way work was performed. Prior to 1986, more classification lines were in existence, and Alcoa could only assign employees outside their respective classifications on a voluntary basis. Following the work stoppage, employees were required to perform any assignment they were qualified to safely perform.

Overall, the relationship between Alcoa and Local 4895 is mature and cooperative. The parties arbitrate only one or two grievances per year, and these are primarily discharge cases. The parties have an expedited procedure for overtime grievances, minor discipline cases, and a few other issues, such as contracting out. The company has the right to subcontract; however, the parties are obligated to meet and discuss such needs before any decision is reached. Although the 1986 strike is still discussed, it does not appear to have affected the long-term relationship of the parties.

For many years, the USWA also benefited from the fact that labor accounts for only about 17 percent of the cost of aluminum. The most important cost in the production of aluminum is energy. In this sense, then, the unions reaped the benefits of the Marshallian condition of “the importance of being unimportant” (Kochan and Block 1977). Within broad limits, Alcoa could be generous with the unions representing its employees, because the major cost components were associated with inputs other than labor.

Indicative of Alcoa’s labor relations strategy/philosophy is its relationship with the other local union at the Rockdale site. When Alcoa assumed operations of the power plant and mine in the late 1980s, it voluntarily recognized the other local union as the representative of the mine and power plant employees. Although Alcoa unsuccessfully requested that the National Labor Relations Board (NLRB) designate

the mine and power plant as one unit, the decision did not affect the company's relationship with the other local.

COMPETITIVE PRESSURES

During the first three quarters of the twentieth century, Alcoa was the dominant player in the world aluminum market. Thus, during the period from the 1940s through the 1970s, Alcoa and its employees, like many other unionized firms in the United States, benefited from market dominance. Alcoa was able to pass on any cost increases that might be associated with collective bargaining.

This favorable situation began to turn in the early 1980s. Since then, the Rockdale plant has faced four major competitive issues. Each of these will be discussed.

Market Pressure

One major source of competitive pressure on Rockdale is the globalization of the market for aluminum. This has manifested itself in two ways: an increased supply of aluminum on the world market, and the development of a centralized, market-based pricing mechanism. Each of these will be examined.

Increased supply of aluminum

Since the early 1980s, there has been a globalization of the market for aluminum. Developed or emerging countries (such as China, following an import substitution policy) have established domestic aluminum-smelting operations which are throwing aluminum onto the world market. Russia for many years had an aluminum industry that serviced the defense needs of the Soviet Union during the cold war. Now that the cold war has ended and those defense needs no longer exist, the aluminum produced by the Russian capacity is being sent to the world market. In essence, the market for aluminum has become commoditized. Aluminum has become a commodity available from multiple sources at a world price determined primarily by supply and demand.

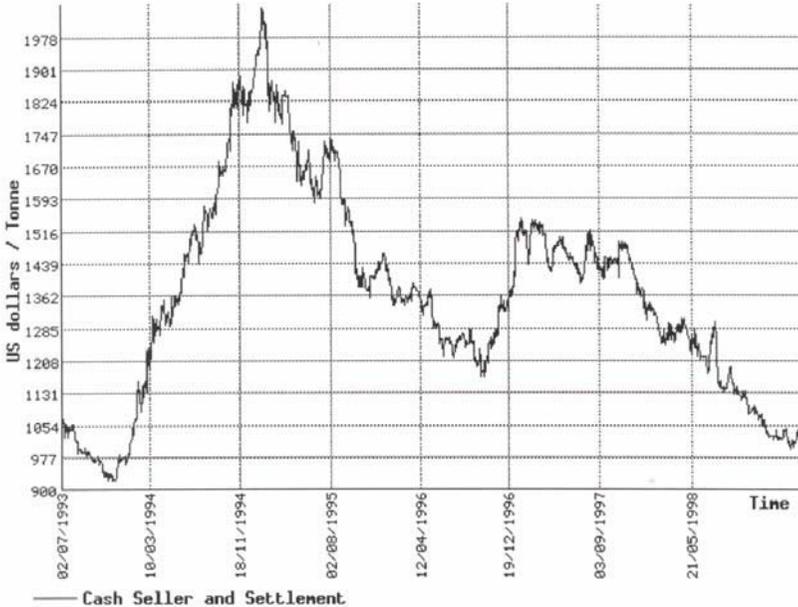
Commoditization has resulted in enormous variation in the price of aluminum. Some sense of this variation can be obtained by examining

Figure 5.2, which depicts the cash seller and settlement price of aluminum between July 1993 and March 1999. The price was at roughly U.S.\$0.50 per pound (U.S.\$1,000/ton) in late 1993. The price rose to well over U.S.\$1.00 per pound (U.S.\$2,200/ton) during the first quarter of 1995. Since then, there has been a general, albeit uneven trend downward to a March 1999 level of U.S.\$0.58 per pound (U.S.\$1,150/ton). This lack of price certainty has placed increasing cost pressure on the company, because Alcoa's revenue stream is less certain than it once was.

Information flows

A second major contributor toward commoditization was the emergence of the London Metal Exchange (LME) in the early 1980s as a facilitator of the market for nonferrous metals, including aluminum. Prior to the emergence of the exchange, Alcoa, as the largest aluminum producer in the world, could determine prices based on its cost struc-

Figure 5.2 Cash Seller and Settlement Price of Aluminum, July 1993– March 1999



SOURCE: London Metal Exchange (www.lme.co.uk).

ture. The LME created a market mechanism for pricing. Thus, Alcoa now had to accept the world price of aluminum, a price that was independent of its costs.

Cost Pressure from Environmental Regulations

The third source of competitive pressure on the Rockdale facility is from increased environmental regulations in the 1980s, primarily the Clean Air Act. The power plant generates and the smelter uses electricity from coal, and coal creates emissions that must be cleaned. In addition, the Sandow Mine is a strip mine, and the land must be reclaimed and restored to an appearance as close as possible to its pre-mining state. Although some of these regulations have encouraged waste reduction—and therefore cost reduction—in general, environmental regulations require expenditures without a rate of return. The smelter sees them as purely a cost. To the extent that the environmental regulations impose additional costs on the production process over and above what the company would otherwise directly incur to produce the aluminum, there is pressure on the collective bargaining system to be the source of the offset of those costs.

Cost Pressure from Use of Coal

When the decision was made in 1952 to locate the Rockdale smelter near the coal seam, it was believed that smelter sites near relatively inexpensive hydro-generated electricity would soon be exhausted. This has not been the case. The parties estimate that coal-generated electricity costs three times as much as water-generated electricity. As with environmental regulations, there is constant pressure on the collective bargaining system to offset this cost disadvantage.

COLLECTIVE BARGAINING, COMPETITIVENESS, AND EMPLOYMENT PROTECTION/CREATION

Since the mid 1980s, management and the employees at Rockdale have become increasingly aware of the importance of plant competitiveness and job protection. Plant management began to emphasize

competitiveness in the mid 1980s, as indicated by its insistence during the 1986 strike on increased flexibility to assign workers to tasks. The parties have generally had a cooperative, high-trust relationship. Therefore, when the company began to raise issues of competitiveness with the union, and ultimately job security, the union took them seriously and was willing to cooperate. The union leadership also saw consistency between the company's competitiveness/job security message and reports in the general news media regarding globalization and competitiveness.

Contract Changes

As one of five plants under the master Alcoa–USWA agreement, the parties at Rockdale are somewhat constrained in their actions. Given this, it is not surprising the parties' main tool for addressing competitiveness and job security has been a traditional one, wage restraint in the collective agreement. Wage data provided by the company for a representative group of pay grades indicate that between 1977 and 1986, the average base wage increased by 62 percent, from approximately \$8.08 per hour to \$13.12 per hour. From 1986 to 1996, however, the average base wage of those classifications increased only 9 percent, from \$13.12 to \$14.32.

It should be noted, however, that this 9 percent increase masks increases associated with combining of job classifications. When the job classifications in the new grouping were upgraded, the wage rates in the previously lower-paid classifications were increased to the level of the higher-paid classifications in the grouping. Many employees received wage increases associated with this upgrading. In addition, employees have benefited from an increase in variable compensation, such as profit sharing. A reduction in job classification and enhanced management flexibility to assign work, provided employees are qualified, was important to plant management as it gave them increased flexibility to assign employees.

The parties also increased the length of the master contract from the usual three years, to six years. Although there was a reopener in 2001, unresolved issues were submitted to binding arbitration. This provided the company with increased stability in its production planning and cost structure.

Noncontractual Formal Structures

The major structural noncontractual innovation has been the creation of partnership teams. The impetus for the teams came from corporate level and the international union, who directed that all plants covered by the Alcoa–Steelworkers master agreement undertake some sort of initiative, primarily to upgrade the skills of the workforce. The parties at Rockdale used this directive to create partnership teams at the plant and department levels. The plant-level partnership team consists of the plant manager, the labor relations staff, all department heads, and the union bargaining committee. Each department in the smelter also has a partnership team that sends representatives to the plant-level team.

The union sees the purpose of the partnership team as improving the position of the Rockdale plant in the market. At the same time, it is advantageous to employees to have a say in how the plant is run. From the company's point of view, the benefit of the partnership team is the improvement of employee productivity, leading to improving relative market position.

The partnership team has been the vehicle through which the Alcoa Production System, Alcoa's version of the modern demand-driven production system, is being implemented at Rockdale. In the ingot plant, union and management came together to reorganize scrap handling, saving hundreds of thousands of dollars per year by recycling scrap that had previously not been recycled. Similar successful efforts have been made in the pot room and the carbon plant. These efforts have reduced costs, thereby increasing the competitiveness of the plant. Hourly and supervisory employees have been sent to seminars and conferences both inside and outside Alcoa to aid them in instituting the system. They have also been sent to other Alcoa facilities for benchmarking purposes.

The parties cited several changes that would not have occurred but for the existence of the partnership team. These have involved the return of work that had once been contracted out, or retention of work that was scheduled to be contracted out. For example, the plant has a yard service that acts like a construction crew. The yard service had been short-staffed and unable to perform needed work. Through the efforts of the partnership team, seven people were added to the yard

service, and it began doing construction that had been previously contracted out. This solution upgraded the skills of the workforce and permitted the represented employees to do work for which Alcoa was paying a great deal. Because of the upgrading of the workforce, the cost differential between the contractors' employees and the unionized employees declined. Thus, jobs were protected through the partnership team, encouraging the reassignment of people.

In 1997, the plant management was considering contracting out its janitorial function of six to eight employees. The matter came to the attention of the partnership team. Under the auspices of the team, the parties developed a proposal to reschedule and redistribute the janitorial work, including adding weekend work that could be done without disrupting the normal production. The result was that the original janitorial jobs were retained and four additional janitorial jobs were created. The retention of the janitorial jobs in the plant also had the unintended benefit of creating some less physically demanding positions that could be filled by employees with physical restrictions.

Through the partnership team, the local union president was also assigned 40 hours per week to union-management issues, and granted office space in a centrally located area. This has permitted the union to increase its awareness of all issues in the plant, as compared to the situation that would exist if the local president had assigned duties and could respond only as contacted by employees.

Ad Hoc Informal Structures

There are also important informal systems that are created at the plant. For example, there is a toolbox meeting at the beginning of each shift at which hourly employees and the supervisor discuss any issues that have arisen, particularly safety, Alcoa's top internal priority. As needed, employees have been released from their jobs for specified periods of time to develop training programs. This was done when job classifications were combined following the 1986 negotiations, and employees were required to be cross-trained in different crafts. In addition, as another example of informal, ad hoc action, the plant management and local union joined together to successfully lobby their U.S. Congressman in opposition to a tax on carbon-based fuel that could

have threatened the existence of the plant, which depends on coal for so much of its power.

CONCLUSIONS

Alcoa–Rockdale and Steelworkers Local 4895 have what may be defined as a mature, traditional collective bargaining relationship. This is based to a large extent on Alcoa’s corporate philosophy of respect for the institution of collective bargaining and a willingness to recognize the legitimacy of the unions, including the USWA, in the facilities where the employees have chosen union representation.

There is a high level of trust between the parties, and this has facilitated the use of the collective bargaining relationship to enhance both employment protection/creation and firm competitiveness. The long-time willingness of the company to provide the union with information on the state of the business and the facility, and the willingness of the union to accept that information at face value, was an important first step in adapting the relationship to the twin needs of employment protection/creation and competitiveness.

Initial responses to these two issues came not through specialized structures designed to address employment protection/creation and competitiveness, but rather through the traditional vehicle of the collective agreement and day-to-day informal interactions. Through the agreement the parties agreed on wage restraint, the introduction of variable compensation, a six-year contract with an arbitrated wage reopener, reduced job classifications, and flexibility in assignments. Ad hoc arrangements through interactions included toolbox discussions and safety committees.

As can be seen, the parties’ mutual trust placed them in a position where they could move away from rights-based formalism based on management rights and union use of the grievance procedure to an interest-based relationship. It was not necessary to create structures or use external consultants to do this. The interest-based relationship simply flowed from the nature of the collective bargaining relationship.

When the formal competitiveness structure, the partnership team, was mandated in 1996, the parties had no difficulty incorporating it

into their relationship. The partnership team mandate provided a formal vehicle for doing what the parties had been doing in any event. It was easy for them to adapt to this new system.

Anecdotes suggest that there have been specific instances in which the collective bargaining relationship contributed to job creation (such as yard service and janitorial function). The plant continues to operate profitably. The parties are aware of their common situation in Rockdale, and they will continue to do what is necessary to keep the plant competitive in an increasingly uncertain and competitive aluminum market.

The Alcoa Rockdale–Steelworkers Local 4895 case represents an excellent example of how value-based employment drives collective bargaining. With aluminum prices declining, or at least uncertain, the revenue stream associated with the product produced by the employees was declining, or at least less certain than it was in the past. That declining and/or uncertain revenue stream was the chief threat to the employees' jobs. In the absence of legal job security guarantees in the United States, the union must depend on itself to address job security. At Rockdale, this took the form of cooperation with the company to increase the cost-competitiveness of the plant by reducing the cost of producing aluminum. Job security and firm competitiveness then were seen as one and the same.

Notes

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Unless otherwise noted parenthetically in the text, the material in this chapter is based on interviews with Anders et al. (1999), Carney (1999), and Cleveland et al. (1999).

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