

Union Trading Parcels?

UPS, Teamsters negotiations could shift to talks about shifting small packages to UPS Freight

As UPS and the Teamsters union get ready to resume contract negotiations Sept. 4, the heat is on for a quick settlement to prevent shippers from looking for alternatives.

That's putting pressure on both sides to come to terms over sticking points such as multiemployer pension plans.

Sources close to the negotiations say UPS could have an additional goal in mind: work rule changes that could bend the shape of operations in the parcel and less-than-truckload divisions.

In particular, they say Brown would like to lift barriers between its union and nonunion shops to allow UPS Freight workers to handle transport of some packages.

That would help UPS not only more cost-effectively manage the movement of package network and compete with rival FedEx but give it a leg up in an increasingly competitive LTL industry that is suffering from depressed volumes.

"It would be better for UPS to manage its total business," said Satish Jindel, principal of Pittsburgh-based SJ Consulting Group. "It would be more cost effective."

The step would help UPS level the playing field with FedEx, which can move its packages back and forth between business units such as package carrier FedEx Ground and LTL trucking company FedEx Freight without restriction.

Such work rule changes may be too costly for the Teamsters, however, unless UPS can sweeten the deal. One carrot that could be offered, according to those familiar with the negotiations, would be an agreement to allow Teamsters to try to organize UPS Freight.

The same rationale is being offered as to why the Teamsters might be willing to agree to a UPS pull out from the Central States pension plan — a suggestion

the Teamsters vigorously denied.

UPS and the Teamsters declined to comment for this story.

UPS is looking to end the talks early, analysts say, even though its contract doesn't expire until next year.

"UPS has to have those negotiations done quickly," said Tim Sailor, a principal and founder of Navigo Consulting, a consultant to parcel shippers. "The market-

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place will not understand a protracted negotiation. They still remember the last strike" in 1997.

Many industry watchers anticipate a quick settlement once the Teamsters and UPS return to the table — with a deal possible by the end of September. The talks were halted while the two sides hunted up more information about the Central States pension fund as they considered the impact of a possible UPS withdrawal from the plan.

The Teamsters said they wanted a better pension alternative than the one UPS offered. Although the plan is underfunded, recent fund trustee reports suggest its financial profile is improving.

But although the pension talks have garnered most of the attention, analysts say the possible work rule changes could have an immediate impact, especially for UPS small parcel operations and competition.

Sailor said it would make perfect sense

for UPS to want to use UPS Freight for small parcel shipments. "It's nonunion," he said. "It would be more cost effective."

For UPS to get such a change would be a major boon, especially if FedEx Ground must take on as company employees the truck drivers it now counts as outside contractors. The company lost a California State Supreme Court ruling on the issue, but FedEx is focused on a federal case the company believes could be the deciding proceeding.

"If FedEx has to accept those drivers in house," Sailor said, "their costs could go up tremendously."

UPS then could score some points with work rule changes that allow it to move



small parcels between its business units.

Ken Paff of the Teamsters for a Democratic Union, a dissident wing of the Teamsters union, sees such concessions as entirely possible as UPS tries to best FedEx. "They try to leapfrog each other and learn from each other," he said. But, Paff said, one ironclad rule with UPS Freight and UPS is that was to be no "subcontracting" between the two, partly in an effort to separate union and non-union work.

"That's the barrier they want to break down," Paff said.

Although there have been some exceptions to the Teamsters work rules — such as putting some of the freight on rails, for example — nothing compares to such a change being discussed, Paff said.

"For UPS Freight to get this stuff — that would be huge."

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