Behind the dispute over individual contracts

BHP prepares new global strategy at its Australian iron ore mines

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The Australian Council of Trade Unions (ACTU) is currently locked in a major industrial dispute with the minerals and steel giant BHP over the corporation's introduction of individual contracts for workers in its iron ore mines in the remote Pilbara region of Western Australia.

BHP's decision to abandon collective bargaining represents a significant shift in the policy of the company, which has in the past argued in employers' forums that the unions were very effective partners. Among union bureaucrats, BHP was known as “union friendly” compared to CRA/Rio Tinto, also a major producer of iron ore in the Pilbara, which completely dispensed with the unions in favour of individual contracts with its workforce.

The dispute has nothing to do with the defence of the interests of workers, either those directly involved or those in other BHP divisions and other corporations. For ACTU officials, the only issue at stake is their “right” to collective bargaining—not wages, jobs or conditions. On Sunday, ACTU secretary-elect Greg Combet challenged BHP's new chief executive Paul Anderson to publicly debate whether productivity gains could be more effectively gained through individual contracts or through bargaining with the union.

If such a debate were ever to take place, Combet would no doubt cite the record of the unions in enabling BHP to slash tens of thousands of jobs in its steelworks since the early 1980s, drive up productivity five-fold and oversee the “orderly closure” of its steel plant in Newcastle. Already many BHP workers in the Pilbara have expressed their alienation and disgust with the unions and voted with their feet. Although the actual figure is in dispute, between 40 and 50 percent of BHP's Pilbara workforce has signed up to individual contracts.

So effective have the unions been as enforcers of restructuring and job cuts that Roy Green, director of the Employment Studies Centre at the University of Newcastle, publicly queried whether BHP management might have made a huge miscalculation by deciding to “decollectivise” its Pilbara operations.

Writing in the *Australian Financial Review* on Tuesday in a comment entitled “BHP's doomed strategy hard to fathom,” Green asked: “Why has BHP embarked on such a risky and dangerous strategy? And why, of all people, Bob Kirkby, who in the 1990s presided over huge improvements in steel productivity performance at Newcastle with the full cooperation of all unions, including the Ironworkers' successor, the AWU? Has the strategy really been thought through? Is there a Plan B if it unravels, which it already shows signs of doing?”

In trying to answer his own questions, Green pointed to “pressure from shareholders” and BHP's need “to distract their attention” after losses of more than $A3 billion on failed resources investments. On the picket lines in Western Australia, the union bureaucrats are no doubt pushing other theories—blaming the American origins of Paul Anderson and his “US-style” industrial relations.

Such explanations obscure the basic fact that the decision to impose individual contracts is a product of the dictates of the market and BHP's waning fortunes in the wake of the Asian financial crisis, falling commodity prices and intensifying international competition. Comments by BHP executives show that they have lost faith in the ability of the unions to implement the new restructuring measures required to ensure the long-term profitability of the mines.

Graham Hunt, president of BHP's iron ore division, commented a fortnight ago that the decision “to offer workplace agreements was not taken lightly and we will not be swayed by industrial action. The simple fact is that we are not as competitive as others in the iron ore industry.” BHP chairman Don Argus complained that working through the unions simply takes too long. “There have been examples where the process has been so drawn out it takes six months to implement change, and in this changing world you can't take six months to implement change.”

According to the Workplace Relations Minister Peter Reith, who supported the company's plans, BHP's costs of production were $2.50 more per tonne of iron ore than its immediate competitor Rio Tinto. While Australia is the world's largest producer of iron ore, the Pilbara mines are now facing tough competition from countries like India.

More than cost is at stake. BHP requires complete “flexibility” of its workforce so there are no delays in meeting orders. As an editorial in the *Australian Financial Review* put it: “BHP needs to be able to ship its iron ore when ships arrive at Port Hedland and not when the shift schedule that would have been negotiated under award arrangements would have allowed it.”

The point was driven home to BHP management late last year when it was negotiating with its rival Rio Tinto over a possible merger in iron ore. Rio Tinto, which had imposed individual contracts in its Hamersley mine in 1993, abruptly pulled out of the negotiations. While no public explanation was given, it is an open secret that the lack of “workforce flexibility” in BHP's operations was a major reason.

Alan Kohler noted in a comment in the *Australian Financial Review*: “BHP chief executive officer Paul Anderson had seen a Powerpoint presentation from the Rio Tinto executives involved in discussions about an iron ore merger, which cruelly showed the difference between the two cost structures resulting from individual contracts at Rio Tinto's Hamersley mines."

BHP's determination to impose individual contracts in the Pilbara is not simply a product of the immediate economic necessities facing the corporation. It stems from a major shift in strategy forced on management by catastrophic losses and plummetting share values in 1998. Most notable was the failure of Magma Copper, the giant US copper producer purchased in 1995 for a record $A3.2 billion, which BHP had to shut down and write off completely in the wake of falling copper prices.

In March 1998, BHP's former CEO John Prescott was forced to resign in disgrace under pressure from shareholders. BHP's blue chip stock had plummetted to just $14.50 from $23 five years before. After a temporary rise, the shares continued to fall, hitting $12.15 in September as BHP roamed the world looking for an appropriate replacement as CEO.

In November 1998, BHP appointed Anderson, former president of the US-based Duke Energy Corporation. As the first chief executive to be chosen from outside BHP's own management ranks, the appointment marked a significant break from the past. Anderson had a free hand to carry out whatever measures necessary to boost BHP's flagging profit margins and share values. As he commented to the media, there would be "no sacred cows".

Over the last year, BHP management has been carrying out a far-reaching strategic review of its entire global operations, the results of which became known late last year. Traditionally a nationally protected producer of steel and later a partner in Bass Strait oil production, BHP was first forced to globalise its investments in the early 1980s under the pressure of lower tariffs and tough competition. It expanded its steel operations into South East Asia and attempted to get into the North American steel market with investments in the US. The company also bought into a diverse range of mineral production around the world, including in the Americas, Asia and Africa.

But while BHP is the largest industrial corporation within Australia, globally it is a relatively minor competitor in many of its products. Anderson brought the message home bluntly in a speech at the end of last year outlining the company's new orientation. After noting that BHP as "one of the top 200 or 300 companies in the world" was a "mega player," he went on to point out that there was a huge discrepancy between BHP's global position in minerals, where it ranked as the world's fourth producer, and its standing in steel and oil production.

"You can tick off all the wonderful things about the steel company, but it doesn't offset the fact that we represent 1 percent of steel production in the world... We are kidding ourselves if we think we are going to be a mega player in steel or a mega player in petroleum. We have to consider ourselves as niche players in those businesses. If you think about this scenario going forward, the future of BHP is clear. BHP will be a natural resources company with a steel component."

Anderson outlined a "three phase" strategy. The first phase was to "right the ship" by fixing the immediate problems and dispensing with unprofitable assets. As well as carrying out a major restructuring of management, BHP has sold off most of its steel investments in Asia and North America as well as oil and gas interests and its share in the Ok Tedi copper mine in Papua New Guinea. The company has also sold off its service divisions—BHP engineering, its retail insurance business WMG and BHP Information Technology.

Anderson's second phase was "to take the assets you have that are healthy and you want to continue with and optimise the return you get from those assets". Within this context, it becomes crystal clear that the dispute over "flexibility" and individual contracts in the Pilbara is central to BHP's entire corporate strategy of boosting its position as a "mega player" in mineral extraction as well as paring down its investments in steel and oil. Anderson and BHP management have concluded that if the company is to survive it must institute working conditions that are competitive, not only with its Australian rivals such as Rio Tinto but also with its competitors in India, Brazil and elsewhere.

At the same time, the future of BHP's "steel component" is bleak. The company's strategic review pointed out that "the Steel component has not produced consistent returns in excess of the cost of capital". The Newcastle steel works, first slated for closure in 1997, was shut down last year, leaving Port Kembla as the company's only integrated steel plant. The plant has been given three years to achieve profits sufficient to cover capital expenditure. The implication is clear: if Port Kembla and its 6,000 workers do not meet the requirements of the corporate financial bottom line then it too will be shut down or sold off despite the fact that it is now the third lowest cost producer of steel in the world.

The purpose of "optimising returns on assets" is to prepare for Anderson's third phase: the expansion of the company globally. He explained that in response to the global integration of production "mega consolidation" is going on "across the board, with companies, countries and institutions". "The biggest, most cost efficient producer will be the winner in that environment and large cap companies will be in demand... We are going to see the mega player and we are going to see the niche player. Anyone in between is doomed to failure, so you really have to figure out which you are."

BHP's perspective is obvious. Driven on by the necessities of the market, management has determined that the long-term survival of the corporation rests on maintaining and improving its position as one of the largest mineral producers in the world. As in any capital intensive corporation, where a small workforce sets large amounts of machinery in motion, the overriding concern of management is not wages so much as maintaining a round-the-clock operation capable of rapid adjustment to the demands of its major customers.

Thus the key, as far as BHP is concerned, is unrestricted "flexibility" of working arrangements so that workers, their families and their whole lives are subordinated totally to the imperatives of the company. BHP's iron ore division spokesman Stedman Ellis insisted on Monday that "a lot of" change was required in the mindset of employees. A more direct relationship between workers and the company would help employees think more like shareholders and align themselves with the business' success as a whole.

The only objection of the ACTU and the mining unions is that they are both willing and able to implement BHP's requirements.