

HUHTAMAKI'S U.S. EXPANSION MODEL

**A Low-Wage, Low-Cost,
Low-Responsibility
Model of Employment**

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Huhtamaki Group, the company

THE HUHTAMAKI GROUP is a global manufacturer of consumer and specialty package products with focus and expertise in molded fiber packaging, flexible packaging, release films and paper cups. The Huhtamaki Group has five business segments, including Flexible Packaging, Films, North America, Molded Fiber and Foodservice Europe-Asia-Oceania.

Headquartered in Finland, it has 61 manufacturing facilities in 30 countries and about 14,300 employees worldwide. In 2013 the Huhtamaki Group reported EUR2.342 billion (US\$3.21 billion) in net sales. The company achieved a record-setting earnings per share (EPS) in 2013, surpassing its previous record-breaking EPS from 2012.¹

The company states that its strategic direction “focuses on quality growth” with new acquisitions in Batavia, Ohio, where the company converted a former auto assembly plant into a manufacturing and distribution unit, and in the United Kingdom, where the company acquired a specialty corrugated packaging facility.²

Huhtamaki further describes its growth strategy in terms of implementing “efficiency improving measures during the year to improve the long-term competitiveness

of the Group.” To achieve that end, the company closed manufacturing units in Viul, Norway, and Epping, South Africa, and divested from its food service business in Italy.³

Huhtamaki describes its commitment to corporate social responsibility in terms of a “commitment to ethical business practices.”⁴ In its Corporate Code of Conduct,⁵ Huhtamaki describes its voluntary commitments for respect of worker rights and certain minimum conditions for its employees, stating, “Huhtamaki supports the International Labor Organization (ILO) Principles promoting equal opportunities and including fundamental human rights for all employees, fair compensation, freedom of association and the right to bargain collectively in a lawful and peaceful manner. Huhtamaki shall not use any forced or involuntary labor, whether prison, bonded or indentured labor. No child labor is used. Employee privacy is respected. Huhtamaki’s employees are supported to maintain or create a healthy balance between work and free time. At minimum, the local regulations on family leaves and benefits are followed.”

While its voluntary commitments are clear, Huhtamaki’s implementation and compliance, particularly in the nonunion sites in the United States, appear to fall short.

Huhtamaki North America is growing

HUHTAMAKI REPORTED STRONG GROWTH in net sales throughout 2013. With EUR725 million (US\$994 million) in total net sales, the North America business segment is the leading sales producer among the five business segments. The company reported that sales accelerated in the second half of the year, with private label items, the extension of Chinet brand product lines and food service packaging leading the growth. Of the Group's 14,300 employees worldwide, about 25%, or 3,521 workers, are located in North America.⁶

What does Huhtamaki's growth and expansion strategy mean for workers in the United States?

In the United States, Huhtamaki completed an important acquisition in 2013: the purchase of a former auto manufacturing plant in Batavia, Ohio, which was converted into a manufacturing unit and distribution center. Huhtamaki hails the success of the acquisition based on its on-budget completion and its favorable geographical location within one day's trucking distance from a major part of the U.S. food service market.⁷ The acquisition in Batavia, Ohio, is the most recent expansion project, though it is part of a broader plan to invest in nonunion plants located in economically hard-hit areas with high unemployment rates. In 2011 Huhtamaki purchased the 240-worker plant in Franklin, Ohio, and aims to make it one of the largest nested food tray and folding food carton producers in the country.⁸ In 2012 Huhtamaki purchased nonunion facilities in Marion, Indiana, and expanded the production capacity with new lines and machinery.⁹

To acquire the Batavia plant, Huhtamaki turned down a proposed New York state subsidy to add a line to its unionized Fulton, New York, plant. Instead, it opened the Batavia site and will receive an annual tax credit of 60% over seven years from the state of Ohio. While the state subsidy requires the company to create 208 full-time equivalent jobs over the first three years, the quality of the jobs, and the wages and benefits attached to them, fall considerably below the standards at which the unionized workers are employed. The company has also

taken advantage of the low market rate for labor, given that the Batavia plant is located in an area of depressed economic activity and high unemployment.

In addition to the acquisitions, Huhtamaki attributes some of its margin improvement to the application of a management model called Lean Six Sigma. The Lean Six Sigma methodology combines the Lean and Six Sigma management approaches. The Lean methods seek to reduce waste by streamlining processes, and the Six Sigma methods seek to reduce defects by solving problems. Lean Six Sigma claims that "combining these two methods gives your improvement team a comprehensive tool set to increase the speed and effectiveness of any process within your organization—resulting in increased revenue, reduced costs and improved collaboration."¹⁰

The combination of expansion in economically depressed areas, using public subsidies, and a nonunion workforce, along with a management methodology that emphasizes increased speed and cost reduction, places workers in both the unionized and nonunion plants in a direct competition where everyone loses. Nonunion workers face low wages, unsafe working conditions, few or no benefits, and a retirement in poverty. Union workers face the erosion of their wages and conditions and the ongoing threat of transfer of production or closure of their facility.

It appears that Huhtamaki is counting on its ability to grow the company with a nonunion workforce, building up its production capacity in its lower-cost sites, while still meeting the demands of its corporate customers. Huhtamaki continues to utilize the unionized plants to develop new lines and to meet customer contracts, but it has also used the skill and expertise in those plants to bring new machinery online and then move it out to the nonunion sites. Additionally, managers often compare the unionized plants to the nonunion plants, emphasizing the need for lower costs and even making statements that they will make every effort to ensure the workers at the newer plants never form a union.

What is Huhtamaki doing to cut costs, and what is the impact on workers?

For workers in the unionized facilities, the acquisition of the Batavia facility, in addition to the acquisition of other nonunion sites in recent years, presents a threat to the jobs and livelihoods of the workers who helped to build the company and its profits.

Work in the nonunion plants compared to work in the unionized plants is dramatically different. While Huhtamaki appears to be expanding production sites, it also appears to be expanding a low-wage, low-cost, low-responsibility model of employment for the workers who perform the labor in the plants. Under this type of expansion model, workers in the nonunion sites also face a threat to their livelihood. They face low wages, few or no benefits, unsafe working conditions, arbitrary decision making, and an uncertain future for their jobs and their longer-term expectations.

What is the strategy to establish a low-wage nonunion workforce in the newer facilities?

To understand the impact of the low-road growth strategy on workers, the United Steelworkers conducted interviews of workers in both the unionized and nonunion plants. Their responses illustrate the strategy to grow the company by expanding a low-wage, nonunion workforce throughout the United States.

Large wage disparities and arbitrary decision making in pay increases

Wages for Huhtamaki vary widely between the unionized and the nonunion sites. Within the nonunion sites there is also wide variation depending on whether the worker is a direct employee of Huhtamaki or a temporary employee (often called “temps” in the worker interviews).

Workers in the unionized sites report no surprises about their wage expectations. One worker from the unionized site in Fulton, New York, reported, “Average wages are about \$19.00 per hour. There is a scale by job classification, and we have 19 different job levels. It depends on the job. The majority of the new workers start at the bottom of the scale. The higher-skilled jobs are bid out in the bargaining unit and are usually filled by experienced workers.” Another Fulton worker reported, “It starts at General Laborer and goes up to Master Mechanic. I think the General Laborer starts at around \$17.00 per hour and the Master Mechanic starts at

around \$22.00 per hour. It is all based on skill and is very regulated by the collective bargaining agreement.”

At another unionized site in Waterville, Maine, one worker discussed wages, stating, “Our average wages are around \$20.00 to \$21.00 per hour. There is a scale by job classification. New workers can enter into any of the job classifications if a current worker does not bid on it. The entry level rate is 21% less than the full rate of pay for the classification. This is for one year; then the worker moves to the full rate.” Another Waterville worker described wage increases, saying, “The wage increase is set through collective bargaining, and we receive a raise of some percentage on the rate (hourly wage) every September 10th. It is usually about 2% to 2.5%, but it is all regulated by the agreement.”

Workers at the nonunion plants describe significantly lower wages than the unionized plants and wide variations depending on seemingly arbitrary and unpredictable circumstances. Workers in the Commerce, California, plant reported that wages vary depending on whether the worker is a “direct hire” (employed directly by Huhtamaki) or a “temp” (a temporary employee hired and paid by an employment agency) and also whether the employee was working at the plant prior to Huhtamaki buying it. Prior to the acquisition, which took place about 10 years ago, the company was owned by SealRight. Workers who were working for SealRight at the time of the acquisition retained their wage rates, though those rates were nonunion rates and still much lower than the unionized plants.

Currently, the only way to start working at Huhtamaki in Commerce is through the temporary employment agency. Many workers hired through the temp agency start at \$9.00 with no additional benefits. For some higher-skilled positions, the wage rate is higher, but the jobs are still temporary and have no benefits. Workers are told that if they perform well they will have the chance to become direct hires, earning higher wages and benefits, but temp workers rarely last more than a few months in the plant and generally do not advance beyond the starting pay level.

For the temp workers there are no annual wage increases. For direct hires there are annual wage increases that are determined through an opaque evaluation process that most workers do not understand. Each April, the

workers undergo an evaluation of their performance and are granted increases based on a computed score that is not clearly explained to the workers. Increases can be as much as 2%, but workers who are not considered “favorites” can get no increase, 5 cents per hour, 10 cents per hour or more depending on management’s preferences. Most workers with less than 10 years of seniority on the job make less than \$13.00 to \$15.00 per hour. One worker noted that in his department “the manager writes the exact same things on all of the evaluations, but the wage increases differ, depending on some computing formula that management uses and workers do not understand.”

Using a high percentage of temp workers in the general workforce

In most of the nonunion sites, Huhtamaki uses temporary employment agencies to bring new workers into the facilities. The company uses temp agencies such as Manpower Inc. in De Soto, Kansas, Workforce One in Franklin, Ohio, or TS Staffing Services in Commerce, California, to hire and pay new employees. Workers employed through the temp agencies generally earn less than \$10.00 per hour. Many start at \$9.00 per hour with no access to benefits or wage increases. At this hourly rate, a worker’s annual income of \$18,720 falls more than \$5,000 below the federal poverty level for a family of four, which is a minimum annual income of \$23,850.¹¹

The temp workers are not considered a hiring pool to bring in and train new workers who will gain skills and eventually become direct hires, earning higher wages and benefits. Instead, the temp workers are used as a form of permanent low-wage workforce, often working in jobs requiring skill competencies and training, which the company simply does not provide. There is significant turnover in employment of temp workers, with many only remaining in the plants for a few months before being fired or leaving on their own. They are then replaced through the temp agency.

Through worker interviews, USW was able to estimate that in one nonunion plant up to 25% of the workforce consists of temp workers, allowing Huhtamaki to operate at a lower cost per worker, with no responsibility for benefits and all employer obligations passed on to the temp agency.

Inside the Huhtamaki plants temp workers are generally considered substandard workers and are treated disrespectfully, in spite of the fact that they perform the same work as direct hires and are held accountable for operating machines and meeting high-quality production standards. Workers in one nonunion plant described how temp workers must wear green hairnets while direct hires wear blue ones, as a way to identify the temp workers as a separate class of workers, even though they work alongside the direct hires and perform many of the same functions.

One temp worker described his experience in a nonunion facility, where he was hired and immediately sent to operate a machine for which he was not trained:

“I began working at Huhtamaki as a temp in late December of 2013. Although I attended a half-day orientation before I started working in the plant, it really didn’t explain anything about how the plant operated. In fact, when they put me in the forming department, no one even taught me how to operate the machine that was assigned to me. I had to learn how to operate it from the other temps who had only been there a few days longer than I had.”

He then went on to describe how temp workers are being used as a permanent, yet expendable, low-wage workforce:

“It wasn’t long before I learned that both the temp agency and Huhtamaki were just taking advantage of temp workers to make a profit. We were only paid \$9.00, even though other workers doing the same work (direct hires) were making almost twice that. At times when the machines broke down and no one was around to fix them, our supervisors would just tell us to go home, sometimes after only two hours of work. Although Huhtamaki told us that all of their workers start as temps and once they gain enough knowledge and skills on the job they would be hired directly, most of us would not work more than three months before we were laid off, if we even made it that long. In the month that I worked at Huhtamaki, three temp workers in my department were laid off while another two were forced to quit.”

Treating workers in nonunion facilities as an expendable workforce

Workers in the nonunion plants appear to receive much less company investment in their training, skills development, wages, benefits, health care and occupational safety. In addition, the company appears to do little to address issues of fairness and treatment that impact longer-term workforce stability and morale. Several workers described being considered an expendable, low-wage workforce, and some perceived that management actually utilized the disciplinary system to collect infractions so as to more easily fire workers that they “did not like.”

Workers in one nonunion plant complained about an unfair discipline system where they accrue arbitrary points for mistakes identified by their supervisors. A worker can get one point for missing a day of work and half a point for forgetting to clock in after a meal break or for failing to take a meal break between the third and sixth hour of the shift. Workers who accrue seven points are fired. After three points workers get a verbal warning, after five points a written warning, after six points a suspension (usually one day) and after seven points termination. However, management often forgets or fails to give these warnings when points are accrued, so sometimes workers will have five points and not realize it until they receive the written warning. Sometimes management suddenly realizes an employee has nine points, and they had not given any warning, so they give the verbal warning and dismiss the worker in the same meeting.

Cutting costs on occupational safety and health means workers pay the price

In the unionized plants, the union and management have reached agreements that allow for joint occupational safety and health programs focused on prevention and a policy of “no blame” in remediation of safety concerns or accidents. Through these programs the local union membership elects safety advocates whose full-time job is to assist in training on workplace safety measures, monitoring safety inside the plant, carrying out investigations and developing remediation plans in cases of safety hazards or accidents. One safety advocate in a unionized plant described his job as: “I am a safety advocate in the plant, and I work full time on the floor as a liaison to management on safety matters. I investigate accidents, apply ‘no blame’ practices and make safety

work orders. This is an elected position through the union, and it will be my full-time job in the plant for three years. This was agreed upon through collective bargaining.”

While there is a cost associated with taking an experienced worker off of his normal workplace duties as a machine operator, through bargaining and labor-management relations, the union has been successful in demonstrating that a worker-led prevention plan can ultimately reduce the costs of lost productivity due to worker injury, health care claims associated with accidents and damage to machinery due to unsafe operation.

In the nonunion plants, however, instead of developing any kind of serious occupational health and safety program, the company gambles with workers’ safety and health, taking its chances that accidents may occur but are likely to go unreported and untreated. Given that many workers are temp workers, not directly employed by Huhtamaki, they have no health care benefits and much higher fear of losing their jobs should they report an accident for which they might be blamed.

Temp workers in the nonunion plants describe working on the floor with very little training and supervision, even when operating the machinery for the first time. One worker described his training, saying, “No manager ever taught me how to do any of my daily tasks. Although more experienced workers were around, they were always too busy trying to fix the broken machinery to give me any instruction.”

When describing the supervision from managers, he said, “Our supervisors only hung around for half of the shift, and after that the other new temps and I were on our own. Most of the managers were not very friendly, and for that reason none of the workers trusted them as leaders....The hardest part about the job was that our machine would break down every day because our supervisors insisted we run the machine at a very high speed to increase production output.”

Workers in one nonunion plant reported that the company claimed no serious accidents in 2013. They did describe one accident several years ago when a heavy cylinder was dropped onto a worker’s toes, causing the steel toe in his boots to curl in and cut off his toes. Workers in the same plant reported that more recently

two workers had accidents in which their thumbs were amputated. When asked about safety training, the same group stated that, although they attend regular meetings where management stresses the importance of safety, on the plant floor, management's only concern is production speed, which causes accidents and high stress for the workers.

Shift scheduling also seems to present some stress and exhaustion concerns for workers who have completed eight-hour shifts but are told at the last minute that they will be required to stay an additional four hours. Workers whose shift ends at 2 p.m. are often told at 1 p.m. that they have to stay on for an additional four hours to complete a 12-hour shift. Others are told on Friday afternoon that they are required to work on Saturday and Sunday, often on 12-hour shifts. If they refuse these additional hours, management counts it as an unexcused absence and applies the disciplinary points system, giving the worker one point against the seven-point total that results in dismissal.

Downward pressure on the unionized workforce: Moving lines to nonunion plants

Huhtamaki has 21 facilities in the United States, of which six are unionized. The two largest unionized plants are located in Fulton, New York (470 employees), and Waterville, Maine (360 employees). Workers at both of these large production facilities report that they are at full production, but they still express concern about pressures to lower costs or threats that they will lose work to the nonunion plants. One worker in Fulton said, "I think we are at full production. It seems like all the machines are on full schedules, running 24/7. Recently, the company brought in a cold cup line because they knew we knew how to get it up and running, but those are the machines we are losing to Batavia."

Another worker from Fulton described the transfer of machinery to the Batavia plant: "Yes, we lost all of the production of cold cups to Batavia. They moved about six machines. These are not small machines. They are huge and take up a lot of space. They run 24/7. When those machines went to Batavia it impacted more than just the machine operators. It also means cutting back on service workers who run product, waste recovery workers and others. We still have a lot of contracts and a good amount of business, so those workers were reassigned, but it meant they had to get bumped

to other shifts, had to take night shifts or do other assignments. Moving the machines did not mean job loss because we have a lot of business, but it did impact the workers, and it showed us that the machines can be moved to a nonunion plant."

Workers in Waterville, Maine, described a similar situation in which they currently are at full production but recognize that their work could be transferred to other sites. One worker described the current production levels, stating, "It seems like we are increasing production. The company uses Waterville to start new products. We have a lab where new products can be developed and tested. It is very high quality. I worked there when production was low in 2008 and 2009, and I can tell the difference. We have been adding some new and better machinery."

In spite of the production levels and quality, Waterville workers express concern about threats to the longer-term security of their jobs. One worker mentioned, "In 2004 the company moved machinery to Alabama. They are constantly saying they have to cut costs, but there is no way for them to hide that the company is doing very well. We have constant and increasing production, and these have been excellent years for the company."

Investing in a union-busting law firm to discourage union participation

There is a great disparity in working conditions, wages and benefits between the union and the nonunion plants, and Huhtamaki appears to have made a significant investment in ensuring that workers in the nonunion plants do not attempt to improve their terms and conditions through union participation and collective bargaining. One way that Huhtamaki has sought to curtail any worker efforts to organize a union is by retaining the services of a well-known union-avoidance law firm.

Even though Huhtamaki claims in its Corporate Code of Conduct, "Group suppliers will respect the rights of employees to associate, organize and bargain collectively in a lawful and peaceful manner, without penalty or interference,"¹² the company has taken measures to ensure that the nonunion workforce in the United States does not make efforts to exercise its rights to freedom of association and collective bargaining.

In Europe, Huhtamaki engages in collective bargaining, codetermination through Works Councils and ongoing social dialogue with workers. It also complies with European Directives on European Works Councils and Information and Consultation.

In the United States, however, Huhtamaki has contracted the services of the leading antiunion law firm, Littler Mendelson, and has begun a process of training front-line management and implementing a program of union prevention, taking advantage of every mechanism under U.S. law to deter workers from exercising their basic union rights. Littler Mendelson is a union-avoidance law firm dedicated to training management and supervisors to implement a strategy to prevent workers from forming or joining a union. On its website, Littler Mendelson describes its union-avoidance approach, stating, “We

provide legal advice to companies as they devise and implement strategies for lawful union avoidance and for dealing with conventional organizing campaigns and unconventional corporate campaign tactics.”

The firm also describes a union-prevention methodology that suggests that “maintaining a union-free workplace requires effective communications with employees and knowledge of union organizing tactics, while adhering to the letter of the complex and frequently changing labor laws. Every day, Littler provides legal advice to help employers understand their legal rights and obligations as they develop preventive strategies to improve relations with employees, detect early warning signs of organizing activities, and minimize the risk of organizing campaigns.”¹³

Conclusions

- The Huhtamaki Group is doing very well financially. In terms of profitability, 2012 and 2013 were record-setting years for Huhtamaki. In 2013 the Huhtamaki Group reported US\$3.21 billion in net sales globally. The company achieved a record-setting earnings per share (EPS) in 2013, surpassing its previous record-breaking EPS from 2012.
- The U.S. operations are an important contributor to Huhtamaki's success. With US\$994 million in total net sales, the North America business segment is the leading sales producer among the company's five business segments.
- To achieve strong sales and profits, Huhtamaki is utilizing a low-road expansion model that includes a combination of expansion in economically depressed areas, using public subsidies and a nonunion workforce, along with a management methodology that emphasizes increased speed and cost reduction.
- The effects of the low-road expansion model mean that nonunion workers face low wages, unsafe working conditions, few or no benefits, and a retirement in poverty. For unionized workers it means the erosion of their wages and conditions and the ongoing threat of transfer of production or closure of their facility.
- To ensure unilateral decision making in the low-road expansion model, Huhtamaki has contracted the services of a well-known, self-described union-avoidance firm that has a documented history of working with employers to skirt laws and regulations on freedom of association and collective bargaining.
- Huhtamaki's low-road expansion plans in the United States will have long-term negative impacts on the economic well-being of workers it employs in its facilities, their families and their communities.
- The plants in the United States and around the world where union representation and collective bargaining exist have demonstrated that Huhtamaki *can* meet customer demand and expand sales and profitability using a well-trained, highly skilled, highly productive workforce. It does not have to resort to low wages, unsafe conditions and a permanent workforce of temp employees to make the company a success.
- Huhtamaki has prior experience in working practically within a rights-based framework of freedom of association and collective bargaining. In Europe it has a history of collective bargaining, social dialogue, national works councils and a European Works Council. Huhtamaki should draw on that background to move forward in its future expansions rather than abandon a tradition of respect and cooperation that can achieve excellence in production and economic success for both the company and its workers.

Endnotes

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