



Canadian National Railway vs. the Union: Should Investors Be Worried?

Description

The third time might just be the charm. **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)) announced over the weekend that it will take one more stab at a new labour agreement. The first proposal was rejected by the Teamsters Canada Rail Conference in January, and a second proposal was narrowly rejected last Thursday. The main unresolved issues are work hours and contract language.

While the future cannot be predicted with certainty, one thing is fairly easy to rule out at this point: a strike. The Harper government has prepared back-to-work legislation, and can use it at any time. Past actions, as well as comments from the Conservative government, indicate that Mr. Harper wouldn't hesitate to use such legislation.

In fact, CN is under no real pressure to reach an agreement. Without the threat of a strike, a failure to reach an agreement will simply result in arbitration. And the arbitrator would be appointed by Mr. Harper's government.

For that reason, the union may feel compelled to reach an agreement with CN. The second proposal was only defeated by an 891 to 852 margin with only 64.2% of members voting. Even a small concession by CN could be enough.

The precedent from CP

This whole situation is very similar to what took place two years ago with **Canadian Pacific** ([TSX: CP](#))([NYSE: CP](#)). In late May 2012, the workers briefly went on strike as part of an ongoing labour dispute. The move directly impacted the mining, manufacturing, and (perhaps most importantly) agriculture industries, all of whom lobbied for the government to step in.

And that's exactly what happened. In fact, both the union and the NDP claimed that the Conservatives' actions took away any motivation for CP to negotiate in good faith. Those events now seem like distant history for CP and its shareholders, as new CEO Hunter Harrison has implemented his turnaround.

Similar actions by the government in labour disputes at Canada Post and **Air Canada** also show that

the Conservatives are not very tolerant of work stoppages when other industries are affected.

Foolish bottom line

So should investors in CN be concerned by these negotiations? Probably not; the Canadian government has shown that it is not willing to let other industries suffer because of a rail slowdown. Recently the rails were mandated to haul a minimum of 500,000 tonnes of grain per week, which only reinforces that notion.

Prior cases at CP and Air Canada, which have both since seen their share prices surge, show that these issues can be quickly forgotten. At CN, investors are hoping that history will repeat itself.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:CP (Canadian Pacific Railway)

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