

## Do Closed Sites Really Make Sense?

We read that a major electrical utility in Alberta wants to restrict bidding on its next project to unionized contractors. Why? A spokesman says an open site would "destroy the peaceful labour atmosphere and could lead to delays in finishing the plant." You can insert the name of many large industrial owner (public or private) and the statement would still be familiar.

A closed site is an anomaly in a supposedly free enterprise country run on capitalist lines because it limits competition, thereby directly influencing factors like cost and scheduling. But if the reasoning is valid, then restricting competition might be justified. Is the reasoning valid?

Most closed sites are large industrial projects; it is pretty well impossible to find a closed commercial site and the majority of the smaller industrial projects are open to both unionized and union-free contractors. What are some purchasers of construction trying to achieve by limiting their projects to union contractors? The stated reason, like the electrical utility's spokesman's reason, will be some combination of the following:

1. Stability of the Project
2. Availability of Skilled Manpower
3. Cost
4. Safety
5. Involvement of Local Residents

No doubt each of these is important; but how is it related to employee affiliation? Are these characteristics offered only by unionized contractors and not by contractors without union agreements? If so, how has this come about? If not, why do major industrial purchasers believe they are?

### **1. Stability of the project**

Labour disruptions are costly in a number of ways. They interfere with schedules that have been carefully planned to allow for the meshing of numerous agencies: a variety of trade contractors each with their own independent priorities and schedules; supply and delivery of materials and problems of storage if they cannot be used immediately. Labour relations problems result in additional labour costs because of extended hours, travel and housing allowances; and negative publicity which in the eye of the public can be a reflection of the owner's poor handling of the project.

In the history of large projects, has there ever been a case where owners have not asked for assurance that there will be no labour disputes and no work stoppages and where assurances have not been given by the unions involved? And how often have these assurances been realized? Not often. At times this situation has been worse than others and it must be admitted that some unions act more responsibly toward their contractual partners than do others. They cannot control each and every action of their members and wildcat walkouts are sometimes chastised by some union leaders. But in the building trades, this has not been the norm.

Closed sites appear to have the worst records for labour-related work disruptions, although you could argue that they offer the least provocation. All demands and conditions have been hammered out prior to starting work, so what is left to contest afterwards? Union members who otherwise maintain they cannot work peaceably beside non-members have no incitement. What is the problem?

Part of it may simply be that only union agreements provide mechanisms by which coordinated disruptions take place. Complaints among union-free employees are handled internally by the contractor-employer concerned even if they are common to a number of companies. An unresolved complaint from one unionized tradesman often means support by all others in that trade and, usually, the demonstration of solidarity by at least token walkouts by the other trades. As often as not, this appears to be out of habit rather than for pragmatic reasons.

On the Alberta Pacific site in August 1992, a disagreement between carpenters and labourers shut down the entire site for a full day. Because the two trades could not agree who was to strip concrete forms, 1700 tradesmen did not work that day. Such jurisdictional disputes are common to unionized sites where trades and locals jealously guard their territory. On an open site, they are very rare.

A common part of the discussions between owners, contractors and unions is the promise of no labour disruptions in return for a closed site. Just as common are walkouts for reasons that everyone had thought were previously settled. That was why we saw 65 heavy equipment operators at the same ALPac site walking off the job for a week in a pay dispute.

Whatever the initial causes, there is no doubt that the worst examples of labour-based disruptions come from large closed sites. In Saskatchewan, where construction labour unrest became a way of life in the 1970s, the Poplar River power station built its second coal-fired unit under closed site conditions. From 1975 to 1981, 206,000 work days were lost due to labour relations issues, which was 45% of the total work time. The additional interest costs alone amounted to somewhere between \$18 to \$25 million without accounting for direct construction cost overruns.

Contrast that with a project very similar in size and type, the Shand power station which was an open site with about 350 unionized and union-free contractors working side by side for the first three years of its duration. Of the 2,000,000 person hours worked in that time, about 2,500 days were lost as a result of labour issues. The closed site lost 800 times as many days as the open site.

## **2. Availability of skilled manpower**

The question of whether or not there are enough skilled people to do the job is not dependent on union affiliation. The most common reason for joining a union is to increase one's opportunities for work; tradesmen cannot work on union-only projects without their union card. There are no such prohibitions on open sites. A 1991 survey by the Canadian Federation of Independent Business indicates that the majority of Canadian employees prefer not to join a union at all. And in the Alberta construction industry, each year employees of 10 to 20 companies will initiate revocation of union

certification.

This is not to suggest that employees are anti-union, but rather that most do not place it high on their list of priorities when looking for work. They work where employment is offered. When contractors advertised for manpower for the Colomac mine near Yellowknife, they were overwhelmed with ten applications for every opening. This was an open site with no contractors signatory to a union agreement. Union membership cannot be discussed or recorded when recruiting, but we can be sure that some were members of a union satisfied to work on an open site.

This is almost certainly the case for the large number of applications received from pipefitters, welders and millwrights, who are traditionally the staunch supporters of unionism. If any trades demonstrate an intransigent refusal to consider other than closed site conditions, it would be these mechanical trades. If there were any tensions arising from union affiliation (and the general contractors was not aware of any), they must have been kept to a personal level. There were no work disruptions and the project finished ahead of schedule.

In January 1993, there were 24,700 unemployed in the construction trades in Alberta. With numbers like that, there is no shortage of skilled manpower for construction work. Owners are frequently persuaded that self-respecting union members work only with their brother members. The facts are clearly different. Not only are union members prepared to work side by side with their open shop cousins, it is now widely recognized that the open shop sector offers as skilled a workforce as the union sector. Commercial, institutional and roadbuilding work is dominated by open shop employees and there are over 13,000 listed in the Merit Contractors Association benefit plan.

### 3. Cost

Cost can be generalized as being direct costs such as materials and manpower or indirect as the result of the efficiency of all aspects of the operations. Cost of materials and supplies may vary depending on the supplier and, to a limited extent, the relationship between contractor and supplier. But generally, the same suppliers are willing to deal with any contractor and each will negotiate the best deals they are able. The outcome is unrelated to whether or not the site is closed.

On the other hand, labour costs are closely related and construction owners could realize significant savings by opening their sites to a wider market. Open shop contractors are able to economize in ways not open to unionized contractors who work under fixed agreements the terms of which may bear no resemblance to the market or to the expectations of employees. These economies are apparently not, as has been suggested in the past, at the expense of employees' wage rates. To illustrate, we have a labour cost comparison which was prepared by the general contractor on the Colomac gold mine in 1988-89.

	<b>Open Shop</b>	<b>Union</b>
Base rate	18.50	18.50
Statutory holidays	.59	.74

Vacation pay	.74	1.11
Pension/retirement	.18	.80
Benefit plan>	.30	.42
Education fund	--	.015
Supplementary fund	--	.30
Statutory burdens	1.57	1.57
Employer association dues	.05	.07
Travel time	.50	2.28
Overtime (70 hour week)	4.07	5.04
Total hourly rate	26.50	30.85

The savings of \$4.35 per hour was not the result of a poorer compensation package for the employee. As you can see, the base wage was assumed to be the same, the coverage in benefits is very similar in spite of the lower open shop price, the open shop retirement contribution is made directly to each employee's retirement savings plan account rather than into a fund which may be limited by vesting and entitlement rules, and so on.

On this project which consumed about 775,000 hours, the labour cost differential totaled \$3,363,500. And additional savings are available for the open shop contractor who is able to use helpers and apprentices rather than journeymen for general unskilled tasks. Of course unionized contractors use apprentices too, but their use on industrial projects is often more limited. The general contractor calculated the total difference was \$4,879,000 on this medium-sized project. That is a savings of 27% by using open shop conditions.

Continuing to build large industrial projects, the dollar value of which heavily weighs on average construction costs, on a closed shop basis sustains these higher costs. Ultimately owners and the public cannot afford the luxury. Owners cannot shrug, thinking it is the contractors' profits that will be reduced, because, of course, part of unionized contractors normal considerations in bid preparation is the likelihood and cost of labour unrest.

Even more impressive are the cost overruns resulting from union trades working well below expectations. The Bi-Provincial Upgrader site in Lloydminster, two years into its schedule, was said to be \$365 million over budget. It is impossible to get facts and figures from the parties involved, but labour concerns and poor productivity have been an issue on this union-only project since it began. The owners of this project: Husky, the federal government and the provincial governments of Saskatchewan and Alberta, have the option of covering these costs or mothballing the plant.

#### **4. Safety**

A good safety program is increasingly a standard requirement set by owners for bidding on their project. Safe work practices and the consequent lower accident rate can be found in both unionized and union-free companies. It is a result of management attitudes and training rather than union affiliation. Contractors who wish to compete in the 1990s are taking the issue of safety seriously.

We also know that attitudes among workers is a key variable. When the Weyerhaeuser paper mill was being built in the late '80s in Prince Albert, Saskatchewan, the prime open shop contractor, BE&K, detected a higher accident frequency rate in their union sub-contractors than the union free firms. Senior BE&K official Garry Martin said he felt that the open shop workers were more responsive to change to safer work practices than their union counterparts.

When the industry made the transition from being unionized in the early '80s to become non-union in the mid '80s, we had not detected a major change in accident severity or frequency. The improvement in contractor safety records that we see in the '90s appears to be occurring in both union and non-union sectors to the credit of management and workers.

#### **5. Involvement of local residents**

The owner of the construction project is anxious to develop a good reputation with the local community. When the project is completed, the owner has to live there, the contractor does not. For that reason, most owners will insist on a requirement that local residents and businesses be given opportunities for any construction work they are qualified to perform. And in most cases, unions will agree to a role for local participation, at least in the discussion stages. To the owners' chagrin, this does not always bear out well in actuality.

From their extensive public relations campaign, we know that Shell Canada wanted to ensure local labour was included on their enormous Caroline site. Unfortunately that was at odds with the goals of the building trades unions who insisted that existing members be given first crack at the job openings. Even in the earliest stages of site clearing and grading, union members from away were hired over the protests of appropriately qualified local residents.

The same dissatisfaction was felt by those living near the AIPac site. It started out well with unions setting aside a certain percentage of jobs for local people and many were issued 90-day permits. Almost immediately, Local 955 Operating Engineers announced it would not renew any of the permits when they expired. It is the owner who bears the long-term effects of this expedient behaviour.

To contrast, an open shop contractor has much greater flexibility for accommodating local needs. Part of the terms of the Colomac gold mine contract was to hire native people living in the area and to train them so that the mill would have an operating workforce on completion. Forty-seven of the 500 employees on the site were part of this program involving 16 to 20 weeks of on-site training in civil and mechanical skills, and training for equipment operators, office and warehouse workers.

It must be understood that it is always a more economical solution to hire qualified local residents than to pay for subsistence and travel time for workers from outside the area. The open shop firm is highly motivated to incorporate local residents where a unionized firm is obligated to the terms of the collective agreement which gives priority to the first person on the list, usually from one of the major cities. The open shop contractor looks on local residents as an opportunity whereas the union sees them as a political problem.

If you asked average people their preference for paying more for a product, their response could only be: "Why would I do that?" And yet construction owners make that decision all the time for reasons that rarely pan out. Not all owners, however, and at least one came to change his mind after years of frustration.

George Hill was president of Saskatchewan's utility company, SaskPower, from 1986 to 1991. Until his appointment, SaskPower built strictly on closed site terms, afterwards, only on open sites. In his words: "I wanted for SaskPower a top-notch job at competitive prices, union or non-union. We were concerned that all people were treated fairly. We treated union and non-union contractors the same. We as owners gained tremendous benefits from the open site concept. I'm firmly of the opinion that the open site concept saved us at SaskPower in the last nine years, hundreds of millions of dollars. I would estimate the savings to be 15% to 20% of the otherwise total cost of capital projects. The interesting part is that this saving did not come at the expense of the working man. As a representative of an owner, I firmly believe that the question of union or not should be something that is between a contractor and his employees. It is not something in which the owner or the government should interfere."