



THE OPEN SHOP ADVANTAGE

BRINGING THE BENEFITS TO THE INDUSTRIAL SECTOR

While industrial owners have typically managed large projects as union-only sites, recent experience with cost overruns and poor productivity have raised questions about this traditional model of project delivery and sparked interest in alternatives.



The Alberta construction market underwent a major transformation in the 1980s, with what was once a union industry becoming largely non-union. At first, many thought those changes were a short-term response to difficult market conditions. However, the dominance of open shop now has a 20-year history. In fact, large industrial projects are the only construction sector that haven't followed the trend to non-union or open shop labour supply models.

In an open and competitive market, most buyers of construction services have shown their preference for the product delivered by an open shop industry. Clearly, these owners are satisfied with the price, quality, service and delivery time they are receiving from non-union providers. So why have industrial owners been slow to embrace non-union

construction of large projects? Perhaps they are more comfortable to stay with traditional practices rather than make the change. Or maybe owners have bought into the supposed benefits of closed shop sites such as labour peace or guarantees of adequate manpower.

Nonetheless, it is easy to demonstrate that owners are not receiving these supposed benefits and are paying a large premium for their allegiance to the union sector. A post mortem of several large projects recently completed under union-only project agreements would lead some to believe that it would be difficult to receive worse service. Perhaps their reluctance to make the change to open shop, as owners in other construction sectors have, is due to a lack of awareness of its tangible benefits.

BENEFITS OF AN OPEN SHOP STRATEGY FOR OWNERS

What benefits are there for industrial owners choosing to pursue an open shop strategy? The benefits are real and demonstrable and include wage cost savings, increased productivity, and a more competitive marketplace.

Wage Cost Savings

Gross wage costs are substantially less when a non-union workforce is employed. This is true even when net wage rates are identical. Union collective agreements contain numerous costly items that inflate gross wage rates but do not put more money into the pockets of individual tradespeople. These include Market Enhancement Recovery Funds (MERFs), training funds, excessive pension and benefit contributions, bargaining agent fees, etc. As a result of these additional costs, it is possible to pay non-union tradespeople a meaningful premium above the union collective agreement rates and still achieve significant cost reductions.

A comparison of union versus non-union wage packages for the pipefitter trade illustrates the potential cost savings:

UNION					
RATE	BENEFITS	PENSION	MERF	TRAINING	TOTAL
\$28.22	\$1.61	\$4.46	.40	.48	\$35.17
NON-UNION					
RATE	BENEFITS	PENSION	MERF	TRAINING	TOTAL
\$ 28.22	.60	\$1.00	0	0	\$29.82

This example, using the same net wages and actual benefit and retirement contributions, reveals a cost differential of \$5.95 per hour. In this scenario, tradespeople are receiving virtually identical compensation packages however the union costs exceed the non-union by nearly 20 per cent. In the current labour market, it is necessary to compete to attract quality tradespeople. This comparison illustrates how it would be possible to add a significant premium to wage rates to attract people to an open shop project, yet still retain wage costs below those on a union site. The incentives to attract tradespeople to work on non-union sites are further enhanced by the absence of union dues.

Potential wage costs savings on non-union sites are made even greater by the flexibility open shop contractors have in organizing their crews and assigning manpower. Maximizing the use of labourers, apprentices and specialized subcontractors offers more opportunities for labour cost savings. The accompanying analysis (pages 48 and 49) provides an in-depth comparison of costs on open shop projects vs. union projects and illustrates how those crew make-up issues can add to the non-union cost advantage.

Productivity

Wage costs savings are immediately apparent and quantifiable. By far the greatest benefit of an open shop strategy however, is improved productivity.

Reports from many past union-only sites rate productivity from bad to abysmal. Certainly, it becomes more difficult to maintain productivity as the job size increases. However, on closed shop, union-only sites, a lack of accountability, benchmarking and competition deter cost effectiveness and discourage maximum productivity.

Simply declaring an open site sends an important message — that competition, accountability and value are important. The idea that, “If we don’t do a good job, someone else will,” is not present on a closed site. And too often as a result, a negative project culture is fostered among the workforce that promotes prolonging the project and protecting jobs, rather than delivering good service to a valuable client.

In a competitive environment, expectations and accountability are key drivers of productivity. A non-union operation increases productivity by eliminating trade jurisdictional rules and providing freedom from hiring hall restrictions.

Rigid work rules have long been one of the most inefficient features of union construction, despite the building trades unions’ claims that they have addressed the issue of juris-

dictional assignments. Jurisdictional squabbles may not as frequently result in job-stopping wobbles and walkouts, but they still act as barriers to assigning the best mix of skills and number of personnel to a particular task.

The union hiring hall system requiring staff to be hired off a list without regard to individual merit is another counter-productive feature of traditional union construction. Because the only standard of hiring hall dispatch is union membership, it creates a job site culture that actively discourages effort and achievement. The single most important advantage of open shop employers is their ability to hire employees of their choice based on their skill, experience and work ethic and to assemble and assign crews based on the optimal numbers and mix of personnel. Productivity differences between union and open shop forces are often cited at 20 to 30 per cent. Those differences relate purely to how the work is performed and are in addition to the wage cost differentials.

A More Competitive Supplier Market

In order for owners to have access to cost-effective construction, there must be a competitive marketplace. The presence of Alberta’s strong non-union sector is the main reason industrial owners in the province are able to access more cost-effective construction than in union-only markets such as Ontario. Union-only projects are a customer-created monopoly that only weaken the cost protection that competition provides.

An active open shop sector has enabled construction owners in Alberta to realize hundreds of millions of dollars in savings. Continuing to nurture healthy competition is a sensible way to ensuring access to cost effective construction.

SETTING THE STAGE FOR A SUCCESSFUL OPEN SHOP PROJECT

Every year in western Canada, hundreds of millions of dollars of industrial construction is completed on a non-union or open shop basis. So what factors are the prerequisites for success and how can this success be applied to large industrial projects?

The open shop industrial sector is really no different than the commercial market. Contractors are awarded work on the strength of their price and capabilities.

Simply declaring an open site sends an important message — that competition, accountability and value are important. The idea that, “If we don’t do a good job, someone else will,” is totally absent on a closed site.

They, not the client, are responsible for managing the human resource concerns of the workforce.

To implement open shop sites for larger projects in an increasingly tight labour market there are a number of prerequisites:

1. A Commitment to Maintain an Open Site

The owner community has often gone to great lengths to negotiate union project agreements and then continued to jump through hoops to adhere to those commitments. This has, at times, reached comical proportions (for instance, searching for union vendors where none exist) and no doubt has entailed a large cost premium. Efforts of the same magnitude are needed to actively manage an open shop site.

As in implementing a successful safety policy, the operation of a non-union or open shop job site requires a firm and demonstrated commitment from the owner. Access to job sites must be controlled; union organizing activity must not be permitted on site and unlawful activities must be responded to forcefully. In other words, the owner must send a clear message that the project is being managed as an open site.

2. Co-ordinated and Co-operative Planning

It is still possible to complete small jobs on the traditional low bid/lump sum/firm price method. But as labour shortages grow or project size increases, it becomes increasingly important when implementing a successful open shop strategy, that all participants — owner, consultants, construction managers and contractors — be involved in strategic planning.

An important component of this planning must be a discussion of wage issues and the costs required to attract manpower and to decrease the probability of union organizing attempts. Non-union industrial contractors who are forced to compete purely on price face an unacceptable level of risk in this area. The wage rates set by owner-sanctioned

collective agreement rates are typically several dollars per hour higher than true market-driven wage rates. The gap between the two exposes any non-union contractor committed to a sizeable long-term project to the danger of union organizing. Until the recent surge in industrial work and the accompanying labour shortages, remaining competitive enough to land work has not allowed open shop players to close that wage gap.

Industrial owners appear willing to pay huge premiums on union-only sites but haven’t considered making even modest investments to ensure a successful open site. Those costs and risks have, for the most part, been carried by open shop contractors. There must be recognition that, even with wage rates equal to those of union collective agreements, there is still room for substantial savings on labour. As well, that making an investment to complete a project on a non-union basis can have a big payback. Capturing that payback requires cooperative and coordinated planning to



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CONSTRUCTION COST COMPARISON

BUILDING TRADE UNION VERSUS OPEN SHOP

This theoretical project demonstrates how the cost of building a project manned by building trade unions compares to open shop. To simplify this analysis, only one trade (pipefitter) is used. A comparison with other trade groups would produce very similar results. Most of the figures used in this analysis are not variables and are taken from widely available data. These include items such as collective agreement rates, WCB assessments, health & welfare premiums, overtime rates, holiday and vacation pay. Where assumptions were required (ie. open shop wage rates, crew make-ups), they are based on the most conservative estimates of current industry practices.

PROJECT DESCRIPTION



Days per Week	5
Hours per Day	10
Hours per Week	50
Schedule Duration	30 MONTHS
Peak Manpower	600
Number of Foremen	54
Est. Direct Manhours	3,000,000

BASE RATE & BENEFITS (PIPEFITTER)

BUILDING TRADE UNION PIPEFITTERS LOCAL 488	STRAIGHT TIME		OVER-TIME		OPEN SHOP CONSTRUCTION	STRAIGHT TIME		OVER-TIME	
	RATE	AMT	RATE	AMT		RATE	AMT	RATE	AMT
¹ BASE RATE		\$28.82	1.5	\$49.23	BASE RATE	\$27.00	1.5	\$40.05	
SAFETY BONUS		\$ 0		\$ 0	SAFETY BONUS	\$ 0.25		\$ 0.25	
VACATION PAY	6%	\$1.73	1.5	\$2.59	VACATION PAY	6%	\$1.62	0	\$0
STATUTORY HOLIDAY PAY	4%	\$1.15	1.5	\$1.73	STATUTORY HOLIDAY PAY	4%	\$1.08	0	\$0
² WCB	3.7%	\$1.07	1.5	\$1.60	WCB	3.7%	\$1.00	1.5	\$1.48
CPP	3.9%	\$1.12	1.5	\$1.69	CPP	3.9%	\$1.05	1.5	\$1.56
EI	3.36%	\$0.97	1.5	\$1.45	EI	3.36%	\$0.91	3.36	\$1.35
³ HEALTH & WELFARE		\$1.61	1.5	\$2.42	HEALTH & WELFARE	\$0.60	1.0	\$0.60	
⁴ PENSION		\$4.46	1.5	\$6.69	PENSION	\$1.25	1.0	\$1.25	
TRAINING FUNDS		\$0.48	1.0	\$0.48	⁵ TRAINING FUNDS	\$0	1.0	\$0	
MARKET RECOVERY FUND		\$0.40	1.5	\$0.60	MARKET RECOVERY FUND	\$0	1.0	\$0	
TOTAL RATE		\$41.81		\$62.48	TOTAL RATE	\$34.76		\$46.54	

¹ Collective agreement rates as of November 1, 2002. ² Industry average rates. ³ Collective agreements specify Health & Welfare payments to be submitted at 1.5X for overtime hours. ⁴ Pension contributions on overtime hours are at 1.5X. ⁵ Non-union training assessments are included in benefit plan costs.

OVERTIME PREMIUM

	STANDARD HRS/WEEK	O/T HRS	O/T MULTIPLIER	HOURS WKD	HRS PAID
BLDG TRADE UNION CONSTRUCTION	40	10	1.5	50	55
OPEN SHOP CONSTRUCTION	40	10	1.5	50	55
BUILDING TRADE UNION CONSTRUCTION: \$4.13 PER HOUR		OPEN SHOP CONSTRUCTION: \$2.36 PER HOUR			
OVERTIME PREMIUM COST = ((ST HRS X ST RATE) + (OT HRS X OT RATE)) ÷ HRS WORKED – ST RATE					

Working scheduled overtime is often a necessary practice both for meeting schedules and attracting manpower. Collective agreement requirements to pay 1.5 times the regular hour assessments for retirement and benefit costs inflate the costs of schedule overtime on union projects. This analysis assumes no hours are worked at double-time rates.

CREW RATE 12 MAN CREW: STRAIGHT TIME

BUILDING TRADE UNION	QTY	RATE	EXTENSION	OPEN SHOP	QTY	RATE	EXTENSION
JOURNEYMAN	8	\$41.81	\$334.48	JOURNEYMAN	5	\$34.76	\$173.80
APPRENTICE 80%	1	\$33.45	\$33.45	APPRENTICE 80%	3	\$27.81	\$83.43
SUPPORT CRAFT 90%	2	\$37.63	\$75.26	SUPPORT CRAFT 90%	3	\$31.28	\$93.84
FOREMAN 110%	1	\$45.99	\$45.99	FOREMAN 110%	1	\$38.24	\$38.24
TOTALS	<u>12</u>		<u>\$489.18</u>	TOTALS	<u>12</u>		<u>\$389.31</u>
AVG COST/HOUR			\$40.77	AVG COST/HOUR			\$32.44
% OF JOURNEYMAN RATE			97.5%	% OF JOURNEYMAN RATE			93.3%

Trade union hiring hall and jurisdictional rules, combined with a traditional bias for journeyman over apprentices restricts flexibility in crew assignments on union sites. The absence of these restrictions allows non-union employers to field more cost-effective crews.

SUMMARY

		EST DIRECT HOURS	CREW RATE	% OF CREW	BTU CONSTRUCTION	OPEN SHOP CONSTRUCTION
MANHOUR COSTS	BTU	3,000,000	\$41.81	100%	\$125,430,000	
	OS	3,000,000	\$34.76	100%		\$104,280,000
OVERTIME PREMIUM COSTS	BTU	3,000,000	\$4.13	100%	\$12,390,000	
	OS	3,000,000	\$2.36	100%		\$7,080,000
TOTAL					\$137,820,000	\$111,360,000
BUILT-UP RATE PER HOUR (CREW RATE + OT PREMIUM)					\$45.94	\$37.12

DIRECT OPEN SHOP LABOUR COST SAVINGS

BUILDING TRADE UNION CONSTRUCTION COSTS	\$137,820,000
LESS: OPEN SHOP CONSTRUCTION COSTS	\$111,360,000
SAVINGS BEFORE PRODUCTIVITY SAVINGS	\$26,460,000
ADD: POTENTIAL PRODUCTIVITY SAVINGS* 10%	\$13,782,000
TOTAL SAVINGS USING OPEN SHOP CONSTRUCTION	\$40,242,000
SAVINGS PERCENTAGE OF BTU CONSTRUCTION COSTS	29.2%

* Productivity savings are those over and above those resulting from the differences in hourly costs i.e. a component would be inches of welding per day. Figures of 20 to 30% are commonly cited as the productivity difference between open shop and union sites. For this analysis a conservative figure of 10% has been used.

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develop a site labour relations strategy that addresses issues such as hours of work, scheduling, living allowances, camp conditions, productivity and safety bonuses, work site committees, communications, etc.

3. A Strategy to Secure Manpower

The need to secure adequate manpower is usually the reason cited to justify union-only projects. Labour shortages that have developed in response to the surge in construction activity in Alberta are not limited to the open shop sector but are affecting union projects as well. Agreements to use building trade unions as the sole source of manpower have not been able to prevent labour shortages. While the shortage of skilled personnel is industry-wide, the recent record of open shop industrial jobs shows it is possible to man large non-union jobs successfully with productive crews. Further, the cost differential between union and non-union gross wage packages provides the resources to continue to attract manpower for larger projects.

What attracts manpower to union industrial projects is not a commitment to trade unionism, but an opportunity to earn a high wage rate. A comparison of union and non-union gross wage costs shows that, even with hourly rates equal, there is approximately \$5 per hour to work with. Is that amount, applied through various strategies —

bonuses, living allowance, working conditions, wage premiums etc. — sufficient to attract manpower in the current Alberta labour market? Recent experience would indicate yes. To date, open shop jobs are being manned without tapping into that \$5 per hour differential. Even if the whole amount was used to attract manpower, there is still the opportunity to realize substantial savings via increased productivity.

Gross wage rates don't mean much to most construction workers — the amount of cash going into their pockets does. The potential to use a portion of the \$5 per hour gap to add to workers' paycheques will result in open shop sites attracting workers, especial-



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ly from the large group who now work union — not because they are loyal to the union movement, but because of the higher wage rates paid on union industrial projects.

4. Efforts to Increase the Potential Pool of Bidders

To maximize the potential number of open shop players, it may be necessary to make adjustments to how work is awarded. Breaking \$500 million worth of work into five \$100 million packages can result in a substantial increases in the number of potential suppliers. Similarly, joint venture arrangements may be a way of addressing concerns about capacity within the current open shop market.

5. A Commitment to Excellence for All Aspects of the Project

Past experience in Alberta has shown that paying high wages doesn't necessarily result in a productive workforce or a successful project. A certain jobsite culture must be established if budgets and schedules are to be met.

The field workforce is asked to deliver skills, safe work practices, efficiency and plain hard work, and that must be supported by a similar commitment from all levels of management. Problems with design, engineering, scheduling, drawings, equipment delivery etc. can have a great impact on the ability of the field workforce to perform. If their efforts are undermined by shortcomings elsewhere, there will be detrimental effects on morale and their commitment to deliver a good project.

Open shop contractors have shown they can assemble crews with the right skills and work ethic to complete a successful project. Those attributes translate into a job site culture that makes for a productive crew. A productivity culture is much like a safety culture. Both need constant nurturing and firm commitment to excellence from all participants, from workers to project owners.

CONCLUSION

Alberta's natural resources have attracted huge investments in industrial construction. However, the mere presence of these resources, including natural gas, timber, oil sands, coal, heavy oil and conventional crude, is no guarantee of prosperity for the province. As we have seen in the past, commodities are subject to global market forces and the products we sell to the world face competition on many fronts. If the province is going to continue to develop its resource base and sell its products in those markets, it must make use of every advantage and efficiency.

Clearly, one of the essential ingredients in that equation is cost efficient construction. Cost and productivity problems experienced on some recent union-only projects have caused people to re-examine traditional models of project delivery for large industrial projects. Open shop industrial contractors believe they offer industrial owners a choice that provides obvious advantages for delivering a safe, high quality, timely and cost-effective service.

Joel Thompson



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