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Middle East Business Intelligence

Demand for Gulf labourers forces contractors' hand

Labour camp unrest has died down after last year's protests but contractors are now being forced to build accommodation for their workers, turning to clients to provide the valuable land.

In a rare public display of frustration late last year, a spate of protests from disillusioned labourers led to a raft of pay increases across the Gulf.

Construction workers from India, Pakistan and other parts of Asia were feeling the effects of the falling value of the dirham – namely a drop in the value of the remittances being sent home. To vent their anger, Asia's expatriate workers went on strike, protested and in some cases even damaged site equipment.

It was the best possible time for the workers to make their protests, thanks to soaring regional demand for labour. At the same time, organisations including Human Rights Watch had caught on to the issue, highlighting the poor conditions that some unscrupulous contractors provided for staff. Governments were forced to act to improve working conditions and labour ministries were told to crack down on firms that were neglecting their employees' welfare.

As a result, construction bosses had no choice but to listen and respond, increasing salaries by as much as 20 per cent. At the same time, contractors are adding to their payrolls in order to grab the maximum share of the Gulf's $2.1trn projects market, arguably keeping labourers in the driving seat when it comes to pay negotiations.

Since last year's protests, pay has largely remained stable but the total cost of labour is rising, particularly in the UAE. Contractors tell MEED that it is not salaries but accommodation that is putting the biggest pressure on their margins at the moment. In the UAE, labour camp strongholds such as Jebel Ali, Al Quoz and Sonapur are all at capacity and finding available land is tough.

"The cost of labour has not moved too much but accommodation has gone up - in some cases it has tripled because land values have risen," says Phillipe Dessoy, general manager at Belgian contractor Six Construct. "Accommodation costs more than the labourers."

Publication:	MEED
Subject:	Middle East demand for skilled workforce
Circulation:	Online
Date:	September 4th, 2008
Source:	Coverage arranged by Wide PR

Other contractors agree that rates have as much as tripled. "The cost of camps has gone up enormously," explains Keith Ridgway, managing director for international business at building group Interserve.

The UK-listed company is a joint venture partner in five different firms across the region including UAE-based Khasaheb Civil Engineering and OHI in Oman. "Traditionally all contractors had camps on government land: we have one on the Sharjah border. The cost per man per month used to be 120 to 180 dirhams - it is now 700 to 800 dirhams for new camps."

What this means is that contractors are increasingly seeking to build their own labour camps rather than renting them from third parties. "We invested a lot in building our own camps. In the long term it is cheaper," says Ridgway.

Building their own camps means that contractors are seeking the support of clients in terms of providing land for the camps.

"For projects in remote areas such as Yas Island, [real estate company] Aldar has built labour accommodation. That helps," says Dessoy.

Six Construct is Aldar's construction partner on the $40bn Abu Dhabi real estate development. Dubai real estate giant Nakheel has also built camps for labourers on some of its offshore projects. And at MEED's Abu Dhabi 2007 conference, Jaber al-Khaili, chief executive of Abu Dhabi's Higher Corporation for Specialised Economic Zones (Zonescorp), said his organisation will build accommodation for 400,000 workers.

The client benefits of providing accommodation are clear; the costs incurred by contractors ultimately get passed on to the developer, so mitigating the risk of rising labour costs is a sensible precaution.

The cost of paying staff may have stabilised for now, but the introduction of a minimum wage – currently being drafted in a new labour law for the UAE - and possible changes to the sponsorship system allowing contractors to move more freely between firms, could rock the status quo. Under current laws, labourers must remain with their sponsor for two years before the firm will consider releasing them.

Last year, the Indian Government submitted a proposal to the Bahraini government arguing for a minimum wage for Indian construction workers employed in the Kingdom.

A GCC-wide minimum wage would create a more mobile job market and improve human rights issues, but contractors say such liberalisation would not be a good thing.

"There would be big resistance from local business because none of them would be willing to do that. There would then be an exodus of staff and workers, creating an auction," says Nazhi Abdul Kader, vice president for Qatar and Bahrain and Special Projects at Consolidated Contractors Company (CCC).

CCC is keen to stress there are no human rights abuses within the firm, and Abdul Kader says it sees the welfare of its labourers as a "key priority".

With labourers' home markets enjoying strong economic growth, companies are having to provide better facilities to entice staff way from their families and improved job prospects at home.

"In all cases our staff have their airline tickets paid, full accommodation provided as well as free medical treatment, transportation and laundry. We also took a decision that all staff should have mess facilities that are catered by international companies experienced in this type of provision."

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Some firms opt to allow labourers to cater for themselves but Abdul Kader says this leads to problems. "A proper diet might cost $5 a day. These people are here to save money and if they are buying their own food they try to save and this then reflects on their health. For this reason we prefer to provide a mess. For any staff who are drivers for example and can't be at the mess we pay them an additional allowance."

This allowance comes on top of the regular wage; CCC has a minimum wage of around $200 per month with all other living costs paid by the company.

Abdul Kader says that a minimum wage "would not make a big difference" as the firm sets its salaries according to the minimums set by the countries of origin of the workers. "A minimum wage is set by the embassies and we must ask for approval for their recruitment from their country – they have a minimum wage. In most cases we pay more than this. And workers then get a pay rise after six months with us and we review this every six months," he says.

The issue of a minimum wage has been discussed extensively throughout the region, but ministries refuse to disclose whether or not this will come into effect. It is understood to be part of the agenda for the GCC summit in Muscat at the end of the year, where better economic cooperation between states is key to the agenda. "The UAE contractors association has had a meeting with the labour ministry and it is under discussion," says Dessoy.

Minimum wages are rarely an issue for professional expatriates - engineers and project managers are able to name their price and move freely between firms. Indeed, the average salary for a project manager in the UAE has crept as high as $25,000 per month, according to data collected by construction consultancy Davis Langdon. All companies, whether small local firms or major international contractors, are desperate for good project managers and appreciate that in the inflationary environment salaries have to rise.

Construction companies such as Laing O'Rourke, which is in a joint venture with Aldar on the $20bn Al Raha beach scheme in Abu Dhabi, is using its international presence to draw staff into the region.

"Right now the biggest challenge we face is people," chief executive Tony Douglas told MEED sister magazine NCE this week.

"If we as an organisation are to seize the opportunities with which we are presented, we must be prepared to reach out into other markets to identify those who wish to join us on the journey. With one of our three hubs in Australasia we have already built a pipeline of skilled people moving from Australia to the Middle East, while in the UK some of our most able engineers and project managers have recently responded by moving to the region."

Recruitment consultants serving markets all over the world maintain that despite growth in China, India and South Africa, the Middle East remains the most hungry for staff.

"The Middle East is a very, very active market from a projects point of view and although the core markets have been oil and gas the real increase has been in construction," says Joe Rothwell, operations manager at staffing company EPC Global. "The competitiveness of the market means that salaries have increased across the board."

In a market which is highly dependent on its international workforce, the fact remains that as long as demand and inflation continue to rise, salaries will be forced upwards. And those firms who can afford to pay for the best project managers, site engineers, carpenters and labourers, will consequently win the battle for manpower.

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