

Perspective

World Contracting News, Views & Comments

Submit your news for publication to Denise Anderson at danderson@bscai.org

ARGENTINA-BUENOS AIRES

Recovery In Place But Still A Long Way To Go

A recent IMF Country Report notes that driven by a resurgence of domestic and money demand, Argentina's economy has rebounded strongly since the crisis of 2001. Real GDP grew close to 9 percent in both 2003 and 2004 and growth has continued in the first quarter of 2005. Unemployment, which was 17.8 percent in December 2002, fell to 13 percent in March 2005 and the share of population below poverty line fell from 58 percent to 44 percent in 2004. However, there is still a long way to go for the country. Inflation has accelerated with the rising demand, bringing the 12-month inflation rate to 8.6 percent as consumer prices rose 5.2 percent through May 2005. And Argentina's debt burden, while declining from 147 percent of GDP in 2002 to 72 percent of GDP in 2005, still represents approximately \$20 billion US in principal in default still outstanding. Finally, the situation with the regulated utilities sector needs to be resolved or it will have a dire impact on the country's recovery.

AUSTRALIA-CANBERRA

Australia To Undergo Major Shake Up In Industrial Relations

The Federal Government is about to introduce major reforms in a major shake up that is being described as one of the biggest constitutional upheavals since the Whitlam Labour Government was sacked by the Governor General in 1975. BSCAA is taking heed of speculation in the press, which predicts that the new workplace laws will transform the way we

live, work, relate to each other and do business. "Hardly an Australian will be untouched" according to some observers. The Government intends establishing one national system for industrial relations. Awards will have a minimum wage set by a new tribunal, to be called the "Fair Pay Commission" and will be reduced to just a handful of base conditions. Part of the massive deregulation will involve abandoning the "no disadvantage test" for Australian Workplace Agreements, instruments that are now being widely promoted across the country as agreements between employers and employees. Fierce opposition to the proposals will come from the union movement, State Labour Governments and the Federal Opposition. The Federal Government has control of the Upper House (Senate), which means that the reforms will be passed through parliament and only a challenge in the High Court can stop their introduction. It is expected that a High Court challenge will be mounted. Whilst BSCAA supports, in principle, greater flexibility in the workplace, the potential reduction in contract values that may follow should shift penalties, and overtime cease does represent a significant challenge for the industry.

AUSTRALIA-CANBERRA

BSCAA National Lobbying Federal Government

The National Board of BSCAA is stepping up its lobbying campaign with the Australian Federal Government in order to take a lead role in industrial relations and related employment issues. Meetings have been held with the key Ministers responsible and in the past three months submissions have been made on independent contracting and labor hire arrangements. BSCAA has also appeared before a Senate Inquiry on workplace reform. National President, John Lazzari said, "We are fortunate to have one strong

national association in this country that can co-ordinate responses and act with a unified voice in terms of representing the interests of our members”.

BELGIUM-BRUSSELS

Growth Projected For Latter 2005

2005 got off to a promising start for the EU but surging oil prices, a fall in global manufacturing, and a decrease in business and consumer confidence, led to declines in the second quarter. However, the European Commission in its quarterly report, points to several factors such as, renewed world trade, a competitive exchange rate that favors exports, and monetary and financial conditions that are bolstering confidence, as signs that the latter half of 2005 should rebound nicely for the EU.

CANADA-MONTREAL

Strike Averted As Cleaners Agree To Settlement

Cleaners belonging to the Local 800 of the Service Employees International Union agreed to a contract offer proposed by the Association of Quebec Building Service Contractors. The agreement will raise wages by 14 percent over the five-year period of the contract. Currently, janitors make between \$13.15 and \$14.05 per hour. In addition, the association will contribute an extra 5-cents per hour to the workers' RRSP in the final two years of the contract.

CANADA-MONTREAL

Empire Maintenance Largest Janitorial Company In Atlantic Canada

On May 1, 2005 Empire Maintenance Industries Inc. of Montreal, Canada, expanded its customer base by acquiring Atlantic Building Cleaning, Federated Building Cleaning, and Novacos Building Cleaning, all based in Halifax, Nova Scotia, Canada. Mario Levasseur, President and CEO announced that combined, this acquisition makes Empire the largest janitorial company operating in Atlantic Canada, and broadens its base to become one of the largest janitorial companies in Canada. Empire now has 3000 employees cleaning

some 80 million square feet of space daily. More information, www.empiremaintenance.ca.

CHINA-HONG KONG

Qualified Technicians May Be Required

A 41-year old woman was arrested after the window she was cleaning fell to the ground from a 25th story apartment. No one was injured. A second similar incident at the same building happened earlier that week. As a result, the Buildings Department is investigating whether it should make it a requirement that landlords hire qualified technicians to regularly check and repair all windows in buildings that were built 20 years or more ago. According to the Buildings Department, there are tens of millions of aluminum windows that were installed over 20 years ago in Hong Kong. In June 2005 alone, 15 cases of windows falling were reported.

FRANCE-PARIS

Moving Forward But More Reform Still Needed

The IMF notes that France has made great strides in implementing reforms such as, reducing the high unemployment rate through the easing of work week restrictions, promoting personal services, enabling life long learning, freezing real government central spending, postponing promised tax cuts, holding health care spending in check, implementing programs to ease administrative burdens on businesses and encouraging economic deregulation. As a result, GDP growth is expected to average 1.75 percent in 2005 and rise to over 2 percent in 2006. However, the IMF cautions that the budget deficit is high at 3.6 percent of GDP and inflation is projected to average 2 percent in the next 12 months, so continuing reforms are required.

GERMANY-BERLIN

Unemployment, High Labor Costs A Concern

With real GDP projected to expand by 1 percent in 2005 and 1.3 percent in 2006, Germany faces several serious challenges, according to a recent IMF

Country Report. Of particular concern are high labor costs and rigidities, high unemployment, welfare programs that need major restructuring, a rising aging population which will put further stress on the public debt rate and an underperforming banking system. The IMF notes that of particular concern are unemployment rates, which are extremely high. What growth that has occurred, has been in the temporary work or self-employment sectors. High labor costs, the result of central controls on wage bargaining, wage setting that doesn't respond to labor market imbalances and productivity differentials, employment protection legislation and high wage floors for entry-level and low skilled jobs, have held back demand on full-time employment. In addition, unemployment benefits need to be drastically reformed to give more incentives to participants to increase labor income and penalize those able bodied workers who are unwilling to work.

JAPAN-TOKYO

Store Chain Used Janitorial Fees To Hide From Taxes

In an effort to avoid taxes, Olympic Corporation, a store chain operator, hid about 500 million yen in income over a three-year period. Olympic used its wholly owned subsidiary, to rent out the premises and buildings, in addition to providing contracts for janitorial and maintenance work at the buildings, for three of its chain stores in Tokyo, Saitama and Kanagawa prefectures. The rates at the premises were increased during the year to amounts higher than the going market rate in the particular areas. The Tokyo Regional Taxation Bureau ruled the rent and contract fees were actually donations to the subsidiary and therefore were taxable. The bureau ordered Olympic, to pay about 200 million yen in back taxes.

NEW ZEALAND-AUCKLAND

No Comedy For This Movie Goer

Cleaners at a local cinema discovered a man in cardiac arrest after a 12:30pm movie showing. They called paramedics upon discovering the man around 2:20pm saying he was unconscious and too heavy to move to the floor so that CPR could be performed. Paramedics were unable to save the man and police are conducting an autopsy to establish the cause of death. About 20 people had been watching the movie.

SOUTH KOREA-SEOUL

Workers Set To Go On Strike

Members of the Korean Federation of Hospital Workers' Unions at 16 major hospitals throughout the country are threatening to go on strike unless their demands for a five-day workweek, a 9.89 percent wage increase and job security guarantees for contract workers, are accepted. The union represents approximately 33,000 employees in over 100 hospitals. Of the 16 affected, many are affiliated with major universities such as Korea University, Hanyang University and Kyung Hee University. The government says it is not planning to get involved unless necessary.

SWEDEN-MALMO

Firm Wins 5-Year Contract From Swedish Railway

Consess AB, a subsidiary of the Swedish construction group NCC, has landed a five-year facility management contract from the Swedish railway, SJ AB. The contract, valued at SEK125m – approximately, \$16 million USD - covers the operating and development responsibility for the railway's offices and properties at some 50 locations in Sweden.

THE NETHERLANDS-AMSTERDAM

Wage And Disability Reform Needed To Sustain Recovery

The Netherlands experienced a relatively long period of strong economic performance but then growth turned negative in 2003 for the first time in 20 years. An IMF Country Report notes that there has been some recovery in 2004, such as, corporate balance sheets have strengthened, profit margins are up, the fiscal deficit was brought to 2.3 percent of GDP, the fiscal sector is in good shape and recent structural reforms, such as a 2-year economy-wide wage moderation agreement with social partners, helped reduce wage pressures and restore external competitiveness. While wage pressures led to an increase in consumer prices, causing inflation to peak at over 5 percent in 2001, CPI

inflation was only 1.5 percent in March 2005. The IMF pointed to four key areas for sustaining the economic recovery; restoring external competitiveness, stimulating high employment, high growth and maintaining social expenditures in the face of an aging population. Of particular concern are labor market reforms. In terms of overall employment rates, the Netherlands compares with the EU average but in total hours, it has the lowest employment rate. There has also been large numbers of inactive workers largely due to disability. To raise productivity growth, the IMF recommends the following; more disability program reform, creating a favorable climate for entrepreneurs and knowledge workers by easing barriers to market entry and exit – the Netherlands's employment protection legislation is one of the most restrictive in Europe – and greater wage differentiation in collective labor agreements although the IMF realizes this will be hard to accomplish in a country where tradition dictates egalitarian wage distribution.

UK-LONDON

With Acquisition Watch MITIE Offers National Coverage In Security

MITIE is pleased to announce that it has acquired 100% of the issued share capital of Watch for a consideration of £6 million payable in cash on completion, with an additional £2 million payable in two further tranches of £1,020,000 in January 2007 and £980,000 in June 2007. The consideration is subject to an adjustment of up to an additional £100,000 if the net asset value of Watch exceeds £1.2 million at completion, thus giving a total maximum consideration of £8.1 million. Watch is a provider of manned guarding and electronic security solutions based in Warwick and operating throughout the Midlands. The manned guarding division provides the standard services of static guarding, mobile patrolling, key holding, alarm response and remote monitoring. In addition, the company has also developed a service called 'Collective Security' whereby neighboring businesses contribute towards the cost of providing local security. Major customers include property management companies, financial institutions and education establishments. In October 2002, Watch established an electronic security solutions business, which will complement MITIE's recent acquisition of Intruder International Limited. Watch's audited accounts for the financial year ended 30 June 2004 showed turnover of £15.3 million, pre-tax profits for the year of £0.4 million, and net assets of £1.08 million. It is estimated that considerable synergy savings will be achieved on the integration of Watch with MITIE. Lt. Col. Richard Evans, the founder of the

business, will remain with the company after completion.

UK-LONDON

Charterhouse Pays \$1.28 Billion For Janitorial Company

In a public-to-private deal Charterhouse, a London private equity firm will purchase PHS Group plc, a janitorial firm, for an enterprise value of £ 729.6 million (\$1.3 billion). Charterhouse will assume £ 139.1 million of debt. PHS, employing about 3,000 and based in Caerphilly, Wales, provides washroom cleaning, plant rental, water coolers, crate rental and dust mats services. In the year ending March 31, 2005, the company generated pretax profits of £ 47 million on sales of £ 187.7 million of which 71% of its sales were from washroom services.

US-INDIANAPOLIS

Groupe Services France Acquires Company

Groupe Services France (GSF), with North American headquarters in Indianapolis, Indiana, has acquired Corporate Building Systems, Inc. (CBS), Buffalo Grove, Illinois. As part of the acquisition, GSF also acquired Maintenance Engineering, Inc., an affiliate company to CBS. CBS was founded over 25 years ago, and provides building maintenance services to commercial customers and properties throughout the Chicago metro area. GSF, with worldwide headquarters in France, is among the leading building maintenance providers in both the Indianapolis and Cincinnati, Ohio markets. The acquisition of CBS is consistent with GSF's growth and expansion objectives and provides the multi-national company a further foothold in the Midwestern United States. The Tullius Company represented and acted as exclusive financial advisor to GSF. Terms of the transaction were not disclosed.

US-OHIO

Cleaning Demand To Exceed \$60 Billion

Revenue for commercial and residential cleaning services is projected to advance 5.5 percent per annum through 2009 to over \$60 billion. Growth will be driven by the continuing trend toward outsourcing noncore activities among businesses and by the growing number of consumers who have neither the time nor the inclination to do their own cleaning.

Improvement in the overall economy will lead to a steady increase in nonresidential floor space and a projected acceleration in the growth of the number of business establishments. Both of these trends will increase the potential market for contract cleaning services. These and other trends are presented in *Commercial & Residential Cleaning Services*, a new study from The Freedonia Group, Inc., a Cleveland-based industrial market research firm. Interior building cleaning services, also referred to as janitorial services, account for over 80 percent of cleaning service revenue. This segment is expected to see accelerating growth (compared to the previous-five year period) through 2009. Janitorial cleaning services and all other cleaning services will significantly outpace the carpet and upholstery cleaning segment, where revenues will be restrained by the increasing availability of do-it-yourself equipment and the growing popularity of hard surface flooring in the residential market, which accounts for approximately 80 percent of segment revenues. Other cleaning services (in the aggregate) will benefit from many of the same general trends as interior building cleaning services. Swimming pool cleaning and maintenance and HVAC cleaning services will provide strong opportunities for growth. Pool cleaning will benefit from rapid new construction growth in the lodging segment and migration of US residents to warmer regions, both of which will expand the market base. HVAC cleaning service revenues will continue to benefit from indoor air quality concerns. All markets for cleaning services will see increases in growth through 2009, with gains ranging between five and six percent. The institutional and office markets will remain the largest segments for cleaning services, together accounting for nearly 55 percent of revenues in 2009. However, these segments have a relatively high level of market maturity, which will limit growth somewhat. The residential market, also a significant end user of cleaning services, will continue to comprise nearly 18 percent of revenues in 2009. This market will benefit from an ongoing rise in the number of dual-income households, which can afford and/or require (due to time constraints) residential cleaning services. More information, www.freedoniagroup.com.

CORPORATE MEMBER NEWS

JohsonDiversey Wins Excellence Award

JohsonDiversey Inc. has been named overall winner of the UK Manufacturing Excellence (MX) Awards 2005. The company was judged to have clearly demonstrated world-class performance in all areas

of its manufacturing operation at Alfreton in the United Kingdom. The Alfreton JohnsonDiversey plant produces a comprehensive range of cleaning chemicals for use by building service contractors in industries as diverse as food service, lodging, healthcare, government & education and retail. Products from the plant are also widely used in the food processing, dairy and brewing industries. A key factor in securing the MX Award was the factory's ability to more than triple production to nearly 100,000 tons per year since 2000, while simultaneously increasing the number of products made at the site from 350 to more than 550 in the same time frame. The Alfreton plant has also won praise for its commitment to responsible manufacturing. As with all the company's 38 global sites, the Alfreton factory is committed to quantifiably reducing the impact of its manufacturing process on the environment. This is achieved through lowering total water and energy consumption, reducing waste through reuse and recycling, and cutting the amount of biodegradable ingredients lost to the wastewater stream. JohnsonDiversey has recently become the first manufacturer of industrial and institutional products to be successfully accredited by A.I.S.E, the European trade organization devoted to producing a charter for sustainable development of industry. The MX Awards program, which is run annually by the Institution of Mechanical Engineers and is government-supported through the DTI's Manufacturing Advisory Service, includes the most rigorous benchmarking procedure applied to companies in the UK manufacturing sector. This includes months of assessor site visits, best practice reports, formal presentations and the scrutiny of a panel of manufacturing industry experts chaired by Professor Lord Kumar Bhattacharyya KB, CBE.

UPCOMING EVENTS

BSCAI Annual Convention and Trade Show

Nashville, Tennessee
March 24-28, 2006

Visit the BSCAI website at www.bscai.org for more information or call 703-359-7090.

16th Congress of the World Federation of Building Service Contractors

Seoul, Korea
October 16-19, 2006

Visit the WFBC website at www.wfbc.org and the website at www.kasmo.or.kr for more information.



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WFBC CORPORATE MEMBERS

3M Canada - London, ON
800-265-1840 www.mmm.ca

Atlas Graham - Winnipeg, MT
204-775-4451 www.ag.ca

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www.truvox.com

Wood Wyant, Inc.-Laval, QC
450-680-9731
www.woodwyant.ca

WFBC MEMBER ASSOCIATIONS

Algemene Belgische
Schoomaakunie-Union
Generale Belge du Nettoyage
Brussels, Belgium
Hilde Engels-ABSU.UGBN@skynet.be

Fise
Roma, Italy
Francesco Tiriolo

Association de Empresas de Limpieza
Buenos Aires, Argentina
Norberto Peluso-correo@limpiolux.com.ar

Associacao de Empress de Prestacao de Servicos de Limpeza
E Activades Similares
Lisboa, Portugal
Jose De Moura-aepsilas@mail.telepac.pt

Building Service Contractors Association of Australia
Crows Nest, NSW, Australia
Ron Jeffs-bscaansw@bscaa.asn.au

Quebec Building Service Contractors Association, Inc.
Montreal, Quebec, Canada
Roger Gauthier-fortier.gauthier@sympatico.ca

Building Service Contractors Association International
Fairfax, Virginia, USA
Carol Dean-cdean@bscai.org

Association of Housekeeping Agencies
Nocia, U.P., India
Anil Sethi-anirupa@del2.vsnl.net.in

Building Service Contractors of New Zealand, Inc.
Auckland, New Zealand
Marja Verkerk-info@bsc.org.nz

Bundesinnungsverband des Gebaedereiniger-Handwerks
Bonn, Germany
Johannes Bungart RA-biv@gebaeudereiniger.de

Cleaning and Support Services Association
London, United Kingdom
Martyn Vesey-mvesey@cleaningassoc.org

Febrac
Brasilia, Distrito Federal, Brazil
Silvio Gaspar-silviojgaspar@upsbeneficios.com.br

Building Managers Association of the Republic of China
Taipei, Taiwan
Kenneth Kao-pacifico@ms37.binet.net

Federation des Entreprises de Proprete
Paris, France
Carol Sintes-csintes@federation-proprete.com

Japan Building Maintenance Association
Tokyo, Japan
Keizo Kozen-kozen@j-bma.or.jp

Korean Association of Sanitary Maintenance
Seoul, Korea
Young Hoi,Um-kasm@kasm.or.kr

OSB
Hertogenbosch, The Netherlands
info@osb.nl

Sveriges Stadentrepenores Forbund
Stockholm, Sweden
Lars Friberg-ey.bermanson@almega.se