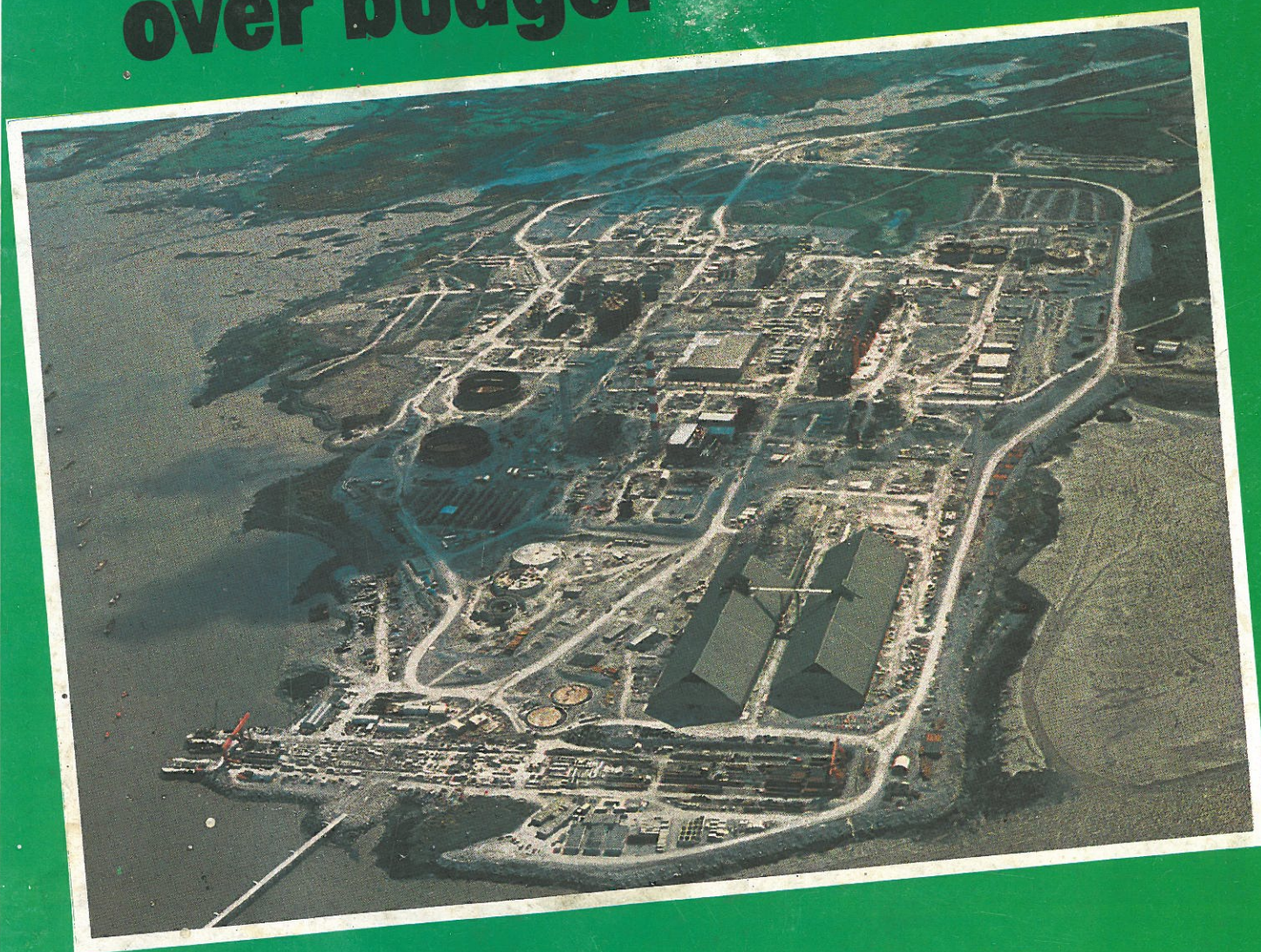


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# **BUSINESS AND FINANCE**

**Alcan  
goes £300 million  
over budget**



- Investing in diamonds
- Industrious Galway
- Mixed views on Horse Island
- Property diary

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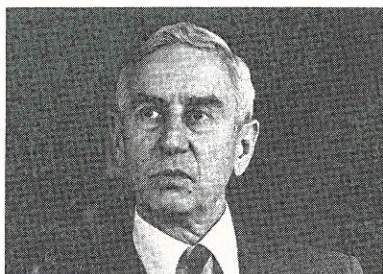


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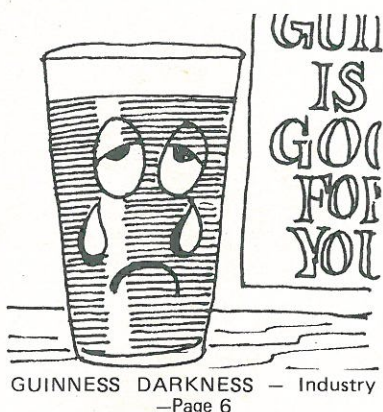


UNDISMAYED AT ALCAN—Managing director Fred Barber

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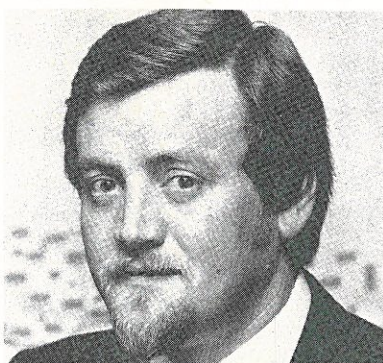
The massive Alcan project in West Limerick, the biggest private investment in the history of the State, is gone way over budget. Also, it will take twelve months longer to complete than originally planned. The project has been plagued by unofficial stoppages, high inflation and now H-Block walkouts. Still, the partners while disappointed are not overly dismayed.



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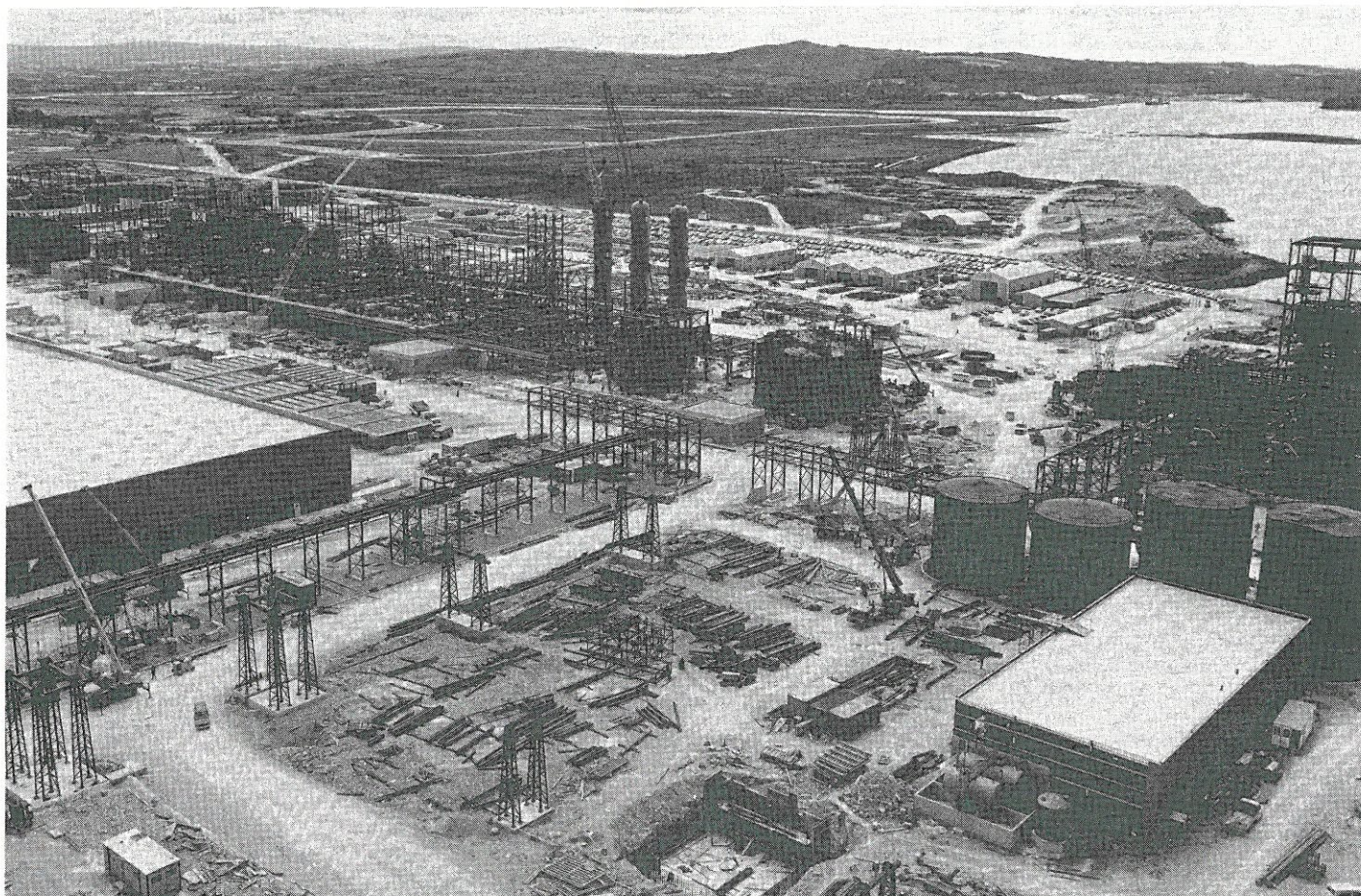
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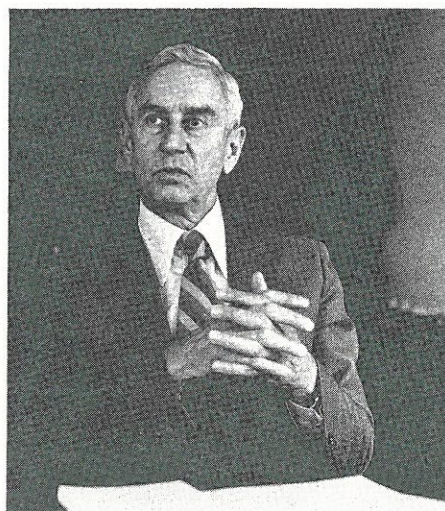




# ALCAN, £300m OVER BUDGET, REMAINS UNDISMAYED

The vast Alcan project in West Limerick, the biggest single private investment in the history of the State, will now cost more than £625 million to complete. The original estimate was £326m. Moreover, it is twelve months behind target and will not now be finished before early 1983. Persistent unofficial disputes continue to plague the site where some 4,000 hourly-paid workers are now involved: in the month of May alone, some 51,000 man hours were lost due to industrial relations incidents — including H-Block absences. The three partners in the venture are said to be "disappointed" with these developments but generally understanding of the reasons for them.

FRED BARKER, managing director of Alumina Contractors, outlines a variety of factors which lie behind the delays and cost over-run at the Aughinish Alumina site. Firstly, there are the internal considerations. The original estimate, for example. The Aughinish project, he says,



FRED BARKER — conclusions were over-optimistic.

gave rise to more than 5,000 engineering drawings. Until all this work is done, you cannot be sure of the final quantities. Or, in other words, of your final cost. "We under-estimated the quantities involved".

Then there were physical difficulties. Normal test drilling before construction began failed to detect cavities in the limestone ground which caused unexpected delays in the excavation and foundations work.

Thirdly, productivity lagged behind expectations. "Our expectations," says Barker, "were based on historical data in North America." Irish consultants were brought in to add their judgement as to what productivity could be expected. Their conclusions, whatever they were, were over-optimistic.

Of the external factors which have driven up the cost, the original estimate for Irish inflation was out by 50%. Interest rates were misjudged by 200% to 300%. As to exchange rate variations which may have a bearing on the final cost, Barker reckons it will remain unclear until the project is finished whether these will make a positive or negative contribution.

Despite this litany of miscalculations and exposure to some of the more bloody-minded of Irish industrial relations



# NOTEBOOK

COMPLAINTS about holidays topped the list of queries about false, misleading or inadequate information which landed on the desk of Jim Murray, Director of Consumer Affairs, in his first full year of office. No fewer than 102 complaints were received about holidays out of a total of 352 which dealt with branches of the 1978 Consumer Information Act. Murray points out that these complaints do not necessarily mean that the law was broken, but indicate that there is "considerable room for improvement", especially where holiday surcharges are concerned. Information about these extras could be passed along sooner, he recommends, and more details about why they are necessary should also be given.

In his annual report for 1980, Murray puts his case to the Department of Industry, Commerce and Tourism for the need to increase the staff numbers in his office. Some time ago he announced that the volume of work was such that his staff could not answer questions unconnected with the two pieces of consumer legislation which it monitors. The director has a team of less than 10 people under his control but he says it is insufficient to cater for the demand. He tactfully says that he regrets not receiving the approval of the Department in the recruitment of two specialists — one with legal qualification and the other with business experience. The increasing workload does show that the public is becoming increasingly aware of the legislation, he adds.

★ ★ ★

THE Sugar Company has recently advertised for high calibre internal auditors, offering salaries in excess of £12,500 pa. Is this a further step to remedy the shortcomings highlighted by the Erin Foods affair and the subsequent Stokes Kennedy Crowley investigation?

★ ★ ★

IT IS unlikely that a new director-general for the Irish Management Institute will be found before the autumn, we hear from a member of the selection committee. A man was found for the £30,000 pa job earlier this year but he turned down the offer. "It's a difficult job to fill," remarked our contact, "and a hard act to follow".

practices, Barker insists that the partners, while not jumping for joy, are accepting the explanations being advanced by the project managers.

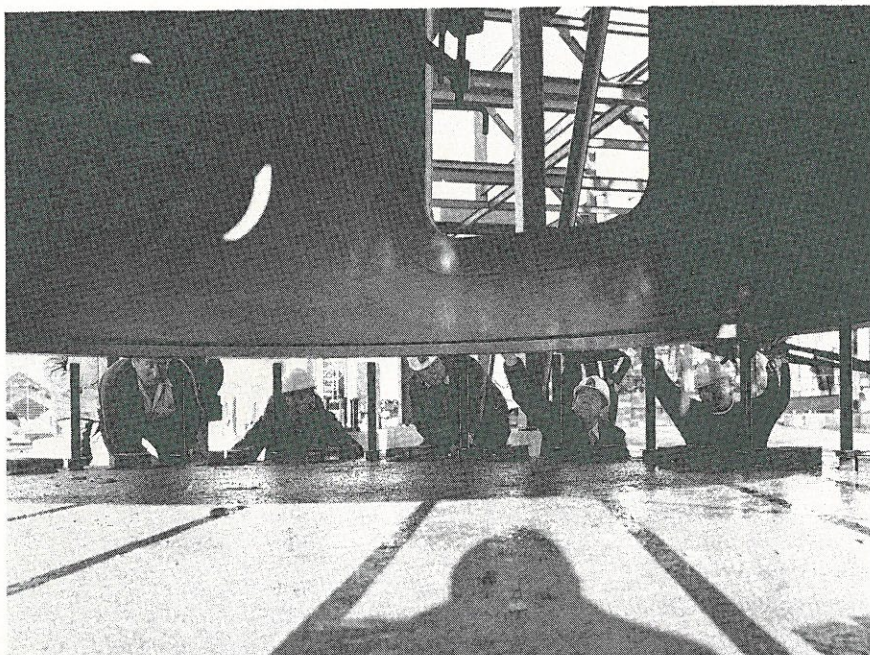
Aughinish is a partnership between the Canadian company Alcan (40%); Billiton Aluminium (Ireland) whose parent is Royal Dutch/Shell (35%); and Anaconda (Ireland), a company owned by the US oil company Atlantic Richfield, which has the rest of the equity. "The partners believe the project managers are doing their best. Naturally they are concerned but there is sufficient analysis available to them to see why things went wrong", Barker says.

Take inflation, for example. Barker argues that the shareholders are unaccustomed to accounting for inflation on the scale that has been experienced in the British Isles in recent times. As to movements in interest rates, where will you find a banker, he asks, who claims that his opinion on where they will go is worth a damn? As to those fissures in the Munster limestone, he reckons that it was an "acceptable risk" that they would go undetected by test drilling.

Barker observes that the industrial relations difficulties which they have encountered should not be seen as a purely Irish problem. There is, he says, a difference between practices in North America and Western Europe, particularly in these islands. "My own feeling is that if you had 4,000 men working anywhere, you would have problems".

A note prepared for *Business and Finance* observes that: "The two-month close down on the site in the summer of 1980 resulted in the sorting out of bonus schemes for the various contractors on site and the smoothing of grievance procedures. This has not resulted, as we had hoped, in preventing unofficial strikes and unofficial picketing and the situation is far from satisfactory. In the month of May alone time lost due to industrial relations incidents amounted to 51,000 manhours. This included the H-Block absences. Since July last year when the site re-opened, 103,500 manhours have been lost.

"Many of the hours lost were the result of short-term picketing, sometimes lasting only an hour or so. There have



DESPITE the labour problems, the project managers claim, there have been real achievements at Aughinish. "At the middle of July construction was almost 45% completed. Contractors are achieving better output, and overall output has now reached around 4% per month as against less than 2% six months ago. This is partly because the site itself is opening up, so that more men can be put to work productively. We are now almost at peak manpower and the 4% can be maintained while we are at peak. In the last six months alone some 20% of the construction work has been completed.

"The physical progress on the site is easily seen as is constantly monitored. Less obvious is the fact that engineering is virtually 100% complete and procurement around 90% complete. These are solid achievements which sometimes tend to be overlooked." Pictured above is one of the 450 tonne digesters being fitted into place.

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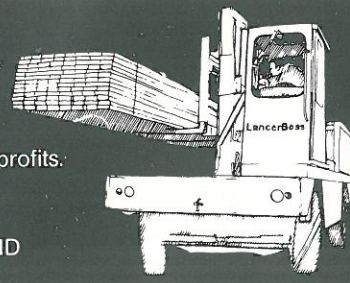
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## Where the money comes from

WE HOPE that shareholders in Billiton will not be alarmed at the costs at Aughinish. A public relations document prepared by the company last year estimated total costs to be of the order of \$500m. Even then the estimate was too low by 1979 prices! Finance for the project has been raised by:

- a £60m sterling credit from the ECGB, the export credit body in the UK;
- a 60m Canadian dollar credit from

the Canadian equivalent;

- a 250m Eurodollar loan raised by Citibank;
- a IR£30m raised by a consortium led by the Bank of Ireland;
- IR£16m in grant aid from the Industrial Development Authority the rest in equity from the shareholders.

There are ongoing discussions about raising the extra money needed, says Fred Barker, "and no, we're not worried about being able to raise it".

been occasions where the bulk of the workforce has passed unofficial pickets. We have never had an official strike. There are adequate procedures for dealing with real or imagined grievances, and while these are being observed by the contractors some workers are ignoring them and resort to unofficial action.

"Union officials on site have done all they could to discourage these strikes, and they have always supported working to the site agreement as we have ourselves.

"The majority of the men on site want to work without interruption and we have many indications that they do not want a constant pattern of pickets and unofficial strikes. The impression which is sometimes created that the workforce consists of a lot of irresponsible men who will go to the gate at the drop of a hat is an erroneous one.

*MORE than just the immediate area surrounding Aughinish benefits from the presence of the project. Contractors and suppliers of materials are scattered throughout the Irish community.*

*The commitment for direct purchase orders with Irish firms is more than £19m. Of the presently estimated final costs more than £200m will be committed in Ireland.*

*Contractors as diverse as J & C Mc Loughlin of Dublin (structural steel) and Kilkenny Design (interior design services) have benefited as have many local firms such as Foynes Industrial, James McMahon and Shannon Foundry.*

*The contractors have begun planting some thousands of trees in various parts of the island under the advice of the Forest and Wildlife Service and the Department of the Environment's game wardens.*

*The National Institute for Higher Education in Limerick has just completed a social impact study. This is a baseline study of transition and change undertaken by Dr Joyce O'Connor, Head of the Social Research Department of NIHE, which concentrates on the social impact of industrialisation in West Limerick. It is now being studied before publication.*

"There are now more than 4,000 hourly paid workers on the site and another 1,000 staff. By the end of this year a further 400/500 hourly paid will be employed. The weekly payroll is more than £1m a week."

Despite this, the unofficial disputes continue to revolve often around the bonus issue. Bonus yield is now running at 42% or better (a man earning £2 per hour can expect to earn an extra 80p as a regular bonus). Barker denies charges, loudly heard in the West of Ireland, that Aughinish pays too much and distorts the labour market. "You cannot buy industrial peace in that way. Anyway, base rates at Aughinish are those of the Construction Industry Federation, and there is very little difference between us and Moneypoint (the ESB station being built across the Shannon in Co Clare)." It is not uncommon, he adds, to pay productivity bonuses in these islands. "I've no doubt that they are linked to productivity because if you don't pay them you get the bottom in terms of output".

The implications of this statement are that the Alcan workers regard the bonus, not as something extra to be earned but as a routine perk to guarantee normal working.

The H-Block "absences" are not regarded as industrial relations problems, says Barker; on six days so far, the 4,000 workers have walked off the site at 1 pm. Technically, they are absent without pay. No more than 5% ultimately walk in H-Block protests. They walk off Moneypoint, too.

By end of July most of the present staff of Aughinish Alumina, the operating company, will move from Limerick City to offices on site. There are some 50 on the staff at present, including most of the senior management team, 14 engineers on training assignments in Canada and Jamaica and secretarial support staff.

The Limerick-based staff is involved with all pre-commissioning planning to ensure that everything is in a state of readiness at the right time and that all of the 700 employees are trained for start-up. Recruitment of tradesmen will start before the end of 1981.

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