

Construction and Quantity Surveying Overseas — 2

"Construction and Quantity Surveying Overseas" was the theme of the Members Seminar held at The University of Warwick on the 7th April, 1978. This is the second part of a report on the Conference and comprises the afternoon session of which the Chairman was E. W. J. Ashford, FRICS, FIQS, FIArb, Vice-President. The morning session was reported in the November, 1978 issue of the journal. Once again we are indebted to R. P. Harris, MSc, ARICS, AIQS, for compiling this report.

THE FINANCING OF OVERSEAS PRODUCTS

The Speaker

The speaker on this subject was Philip J. M. Prain, MA, Barrister-at-Law, Manager, Kleinwort Benson Limited. Following a national service commission in the Black Watch, three years at Cambridge University and two years of continued legal studies for the Bar examinations, Philip Prain joined Kleinwort Benson in 1962, and has worked in each of the three main divisions in the bank — banking, corporate finance and investment. The majority of his career has been in the banking division where, after a general training, he has specialised for over ten years in the negotiation and management of loan facilities supporting large United Kingdom export projects guaranteed by the Export Credits Guarantee Department. He has also been closely involved in the co-ordination of export finance from a number of different countries and in the general financial planning of major projects.



Introduction

I rise to address you, somewhat unsteadily because I have made good use of the two wine tickets which you were kind enough to give me, and with probably even

more trepidation than at a previous talk which I gave to the Estimating Section of the Institute of Building. You see, for some reason which I have never discovered, bankers are supposed to know exactly what is going to happen to the financial world in say two or five years hence — or more. What, I might be asked, will the sterling-yen exchange rate, or sterling-dollar for that matter, be in five years time? Of course, I would be foolish even to attempt to answer the question, because so many political and other factors quite outside the control of all of us have a large bearing on it. I would be tempted, therefore, to ask my questioner who he thinks will win the next general election — it is as uncertain as that. I suppose you, too, like the estimators, need good crystal balls, but I can't help thinking that quantity surveyors really must know what is going to happen in their own operations, because they have to do their forward planning so carefully, so I really think that some of you should be teaching me a few tricks of the trade; and for that reason I listened with great interest to the most impressive talks which we heard this morning.

Merchant Banks

You have asked me to talk about funding and sources of finance for overseas contracts but, before leaping in with both feet since the simple answer might be that the source of finance is a bank, let me tell you a little about the Merchant Banks in general and, in particular, my own bank, Kleinwort, Benson Limited. I am well aware from past experience that many people do not know what a merchant bank is, let alone what it does, and this lack of knowledge is, I feel, entirely due to the banks themselves for not spreading the gospel properly. As the name implies, merchant banks started as merchants, my own company being founded in 1792 as traders in tropical produce in Cuba. We set up shop in the City of London in 1820, on the same site at number 20 Fenchurch Street where we still are today, although the old panelled office with clerks on high stools using quill pens has now given way to a modern 24-storey glasshouse with all "mod. cons.", including a computer. In those early days, however, some merchants fared better than others and became better known to the world at large; these merchants began more and more to guarantee the obligations of other lesser-known merchants rather than trade exclusively for their own account. Thus was born the Acceptance Credit facility, which still remains the mainstay of our merchant banking business today. We have not, however, forgotten the grass roots whence we sprang, and there are within our group a number of companies, both in the U.K. and overseas, which actively deal in merchandise and bullion.

The giving of trade finance in currencies other than sterling meant that the merchant banks were in at the beginning of the Eurocurrency market, and they now play

an important part in the arranging of eurocurrency credits, which part has been further extended by the introduction of the new ECGD facilities in dollars and deutschmarks, about which more later. Another activity following from their international activities is their managing, underwriting and placing of international bond issues denominated in the world's major currencies. They have also developed a significant amount of international leasing business.

Advisory services

One subject that should be mentioned here is the advisory role that major merchant banks can assume in relation to the financing of projects. It is part of the service that those banks have given their customers for several years but only recently has it become a major part of their international endeavour. Obviously projects can be of very different kinds – they can be creating part of the infrastructure of a country or they may be income producing in their own right. Those that are income producing may be intended to service the domestic market or they may have a significant foreign exchange earning power. It is likely that different sources of finance or at least different combinations of those sources will be appropriate in each of these cases. It is the job of the adviser to recommend which combination would be appropriate for the project under consideration and of course to advise whether these sources are in fact available to that particular project. As those of us who participate in this particular market are only too aware the rules are constantly changing and it is an important part of our job to keep fully up-to-date and advise our customers accordingly. Naturally this means that the ideal type of finance may not be available in an amount which is sufficient for a project and one then has to advise what is the best obtainable financing package. We are facing an explosion in demand for project finance and a shortage on the supply side for the finance that has traditionally been thought appropriate, namely finance in a matched currency with a long maturity and a fixed (and preferably a subsidised) interest rate.

The comments I have just made really relate to cases where we are advising the buyer or promoter of a particular project. However, these services can equally well be made available to a contractor although, of course, a bank cannot give independent advice to both buyer and seller for the same project. The practical objective of all this, so far as those of you who represent exporting main contractors are concerned, would be to determine the optimum financial package for you to present to your overseas buyer in support of your contract, involving the maximum amount of export credit finance from the various different countries from which your sub-contractors or co-contractors were working.

Let me sketch for you how this would work in practice. We would prepare for the relative export credit agencies and commercial banks an information document describing the project and providing economic information about the buyer and his country. Separately for each country of supply, we would append a statement concerning the purpose of the loan and the degree of foreign competition for the supply of equipment, and we would add a list of such equipment showing names of possible suppliers and values. We would then visit, possibly with your representatives, the export credit

agencies and nominated commercial banks in each supplying country in order to explain the project and to obtain an indication in principle of the availability and terms and conditions of finance under officially-supported export credit schemes. We would also obtain an indication in principle of the availability and terms and conditions of finance from commercial sources to cover that part of the cost of the project for which export credits were not available. We would determine the most appropriate financial package, taking into account the cost of the relative equipment in various countries, and the terms and conditions of export finance relating thereto. This would, of course, require close liaison with your engineers and procurement officers.

The next step would be to sell, in co-operation with you, the financial package to the buyer. To do this, we would prepare a financial memorandum giving as firm an indication as possible of the structure of the financial package, the availability and terms and conditions of finance and, where appropriate, commercial bank charges. We would, of course, assist you in discussing the financial memorandum with the prospective purchaser. Subsequently it would probably be necessary to revise the financial package in the light of the final choice of equipment by the buyer or the supplier, and our final task would be the co-ordination of all the financial arrangements, including the loan documentation, so that the administrative burden imposed on the buyer and on yourselves was as far as possible reduced.

ECGD – Guaranteed Finance

The main source of finance for United Kingdom export projects is finance raised under the guarantee of the Export Credits Guarantee Department, with which I imagine that most of you are familiar. If not, we can cover this in more detail later. For the moment, suffice it to say that ECGD is a government department responsible to the Secretary of State for Trade. It was set up in 1919, to provide a service of export credit insurance for British manufacturers and merchants. It is required to operate at no cost to public funds, and by issuing guarantees to banks it can often help to make export finance available at favourable rates. It now covers, I understand, some 10,000 exporters doing over £8,000 million worth of export business annually. Its facilities are available to firms of all sizes.

ECGD-guaranteed credit facilities are of two basic types, Buyer Credit and Supplier Credit. As the names imply, Buyer Credit involves a loan made by a U.K. bank to the overseas buyer (or other appointed borrower), while supplier credit involves a loan made by a U.K. bank to a U.K. supplier to enable him to give credit to his overseas buyer. The necessity for credit, and therefore the opportunity for the U.K. bank concerned to arrange such credit, is obviously contingent on the U.K. exporter being awarded the relative contract and, of course, credit insurance cover being made available by ECGD for the market and in the amount concerned. In the case of large pieces of project business, there is almost always multi-national competition and it frequently happens that we will be obliged to spend a considerable amount of time and effort (and perhaps travelling expenses too) assisting a contractor by preparing a financial package, only to find that, because our contractor-client does not win the contract, there is no business for us because there is no

contract to finance. I would estimate that, for each ten large pieces of business on which we make a major effort, one leads to business for us.

The percentage of the value of U.K. goods and services covered under an export credit facility is 80 or 85%, depending on the market and the competition for the business. It is in some cases possible, under buyer credit facilities, or supplier credit constructional works policies, to obtain some additional ECGD-guaranteed finance to cover locally-provided services and basic building materials (sand, gravel and cement), provided that the U.K. contractor concerned is responsible for the provision of these. If such additional finance is available, it would amount to about 15% of the U.K. element of the contract. It should also be noted that there are reciprocal arrangements within the EEC (and some other countries) whereby the insurance cover given to a main contractor on supplier or buyer credit transactions for capital and engineering goods can include a limited amount for sub-contracts placed in other member countries. The amount involved is agreed on an *ad hoc* basis for each case, below a defined maximum of 30% of contract value. The balance of the purchase price, not covered by ECGD, must be paid in cash by the buyer, and ECGD require a payment to be made by the buyer to the U.K. exporter of at least 5% on signature of contract. Should additional credit be required to cover these direct payments, it should be raised in the commercial market on the current terms and conditions for the risk concerned. This would normally be on a six-month rollover basis, at a margin over the London Inter-Bank Offered Rate ("LIBOR"), which represents the cost of the funds to the lending bank.

Buyer Credit

Under Buyer Credit arrangements, contracts can either cover the sale of capital or semi-capital goods only, or complete "turnkey" projects. Similarly, there can either be one contract covered by one loan agreement, or the loan can be in the form of a "Line of Credit" where the same loan provides for a number of different contracts. Lines of Credit can either be "Project" Lines of Credit, where all the contracts relate to one particular project, or "Shopping Basket" Lines of Credit, where a number of different buyers would be involved.

Except in the case of contracts covered under lines of credit, the minimum contract value to qualify for a "Buyer Credit" facility is £1,000,000. The credit period for "goods only" contracts, and "turnkey" contracts under £2 m. in value, is normally five years. "Shopping Basket" lines of credit are normally restricted to between two and five years, depending on the nature and value of the goods supplied. For "turnkey" projects over £2 m. in value, and project lines of credit, the credit period is up to 5, 8½ and 10 years respectively for rich, intermediate and poor countries, grouped according to their per-capita income; these are the maximum periods of credit permitted under the international "gentlemen's agreement", and it is for ECGD to decide whether they are prepared to go to the maximum in each individual case.

It is possible, of course, for ECGD to "match" official credit-insured competition in excess of these maximum terms if it can be shown to be available in support of a competitive tender. Where the contractor is responsible for the commissioning of the project, the period of credit

will normally run from estimated commissioning date; when responsibility is for shipment of goods only, it will run from estimated mean shipment date. It is necessary to fix precise repayment dates when the loan agreement is signed, since ECGD is not permitted, by Act of Parliament, to undertake open-ended commitments. Principal repayments are made six-monthly, with first payment six months from estimated commissioning, or mean shipment date, as the case may be. Drawings are made by the contractor, as and when goods are shipped, or services are performed, by submission to the lending bank of either shipping documents, or a "qualifying certificate" duly countersigned by the buyer or his agent, as stipulated in the supply contract. If agreed between buyer and seller, progress payments can be made to the contractor out of the ECGD-guaranteed loan during the period of construction, provided that payment is not made in advance of progress of work. Payment is made by the bank directly to the exporter, to the debit of the account of the borrower. Promissory notes will be purchased if these have been stipulated under the facility, and the relative ECGD guarantee covers 100% of principal and interest. There is no recourse by ECGD to the contractor provided that he is not in default under his supply contract. It should be noted that special standardised terms apply to certain special cases, such as new ships and aircraft, under various international agreements. Loans relating to shipbuilding contracts, for instance, normally only cover 70% of the U.K. value, with a minimum rate of interest fixed at 7½% per annum, and a maximum credit period of 7 years from delivery of the ship concerned.

The loan may be in sterling, or in U.S. dollars or deutschmarks or perhaps (in exceptional cases at the discretion of ECGD) in some other currency. Until early 1977 all buyer credit facilities were in sterling, and the clearing banks were required to make available all the finance needed being able to refinance this when an amount in excess of 18% of their non-interest-bearing sterling deposits had been so provided. For the amount of money put up themselves, they were guaranteed a return by ECGD, being a margin over the estimated cost of the money to them. The total increased cost of such refinance (£505 m.) and interest make-up (£220 m.) in the year 1976/77 amounted to some £725 m., and ways had to be found to lessen this large amount of public expenditure. So in early 1977 ECGD announced that U.S. \$1,000,000,000 per annum of buyer credit facilities would be financed in U.S. dollars or deutschmarks, with banks being guaranteed a pre-agreed (for each individual facility) margin over 6-month LIBOR, in return for a commitment of at least seven years. By thus opening the facilities to U.K. non-clearing banks, and overseas banks, on these terms, it was hoped that the above-mentioned cost of the exchequer, so far as foreign currency facilities were concerned, would be negligible or would disappear. It was also announced that all contracts except those with the poorest countries, and in any event all contracts over £20,000,000, would be financed in foreign currency. Subsequently this arrangement has been slightly modified, to the extent that, for export contracts with a loan value of up to £5 million, while ECGD will still generally expect to see non-sterling financing, the Department will no longer insist upon the use of foreign currency where the exporter or his financial advisers consider that there

is an advantage in the use of sterling. Moreover, for exports to EEC countries a similar option on sterling or currency financing will apply, irrespective of loan values.

Earlier this year details were finalised of a new scheme for the provision of sterling export finance to apply to guarantees issued by ECGD after 1st April, 1978. Under this scheme all banks registered as companies in the U.K. will be permitted to take part, and refinance will only be provided by ECGD for those maturities in excess of five years. For funds provided by the banking community (relating to all maturities of five years or less), a margin (presently $1\frac{1}{4}\%$) above the average 3-month LIBOR (calculated in accordance with an agreed formula) will be guaranteed by ECGD, with an interest adjustment system (plus or minus) to ensure that this margin (no more, no less) is obtained.

Under buyer credit facilities, the borrower pays a fixed rate of interest for the duration of the credit, with interest payable six-monthly in arrears. Under the international "gentlemen's agreement" to which the U.K. subscribes, the minimum fixed rates of interest are as follows:—

For 5-year credits:	Rich countries	$7\frac{3}{4}\%$
	Intermediate and poor countries	$7\frac{1}{4}\%$
For over-5-year credits:	Rich countries	8%
	Intermediate countries	$7\frac{3}{4}\%$
	Poor countries	$7\frac{1}{2}\%$

At the present time, these minimum rates of interest apply to credits denominated in U.S. dollars or deutschmarks (and normally to any other foreign currency permitted by ECGD in exceptional circumstances); the interest rates applying to sterling credits are marginally in excess of these minima. I should add, however, that with effect from 1st April, 1978 export finance for contracts with other EEC countries can no longer, under EEC regulations, be made available at fixed rates, but will henceforth be provided at market rates, i.e. at a margin over LIBOR on a roll-over basis.

The only financial charge payable by the exporter under a buyer credit facility is the insurance premium payable to ECGD. This is a flat fee payable before the guarantee becomes operative and drawings can be made from the loan. It is quoted by ECGD to the exporter on a case-by-case basis, depending on the market concerned and ECGD's mean risk period. All other banking charges are for account of the borrower. Under the sterling scheme these include a flat 1% commitment commission calculated on the total loan, a flat negotiation fee and an annual management fee. For foreign currency credits a Euromarket fee structure applies, including a commitment commission on undrawn balances (presently about $\frac{1}{2}\%$ p.a.), a flat negotiation fee and an annual management fee. If market conditions dictate, a participation fee may be payable by the managing bank to the members of the banking syndicate, in which case a higher negotiation fee might be required. The amount of these commissions is a matter for negotiation between the borrower and the bank in each individual case.

Supplier Credit

A supplier credit, as the name implies, is made available to a U.K. exporter to enable him to give credit to his overseas buyer. In the case of credits relating to capital or semi-capital goods, the credit period would normally

be between 2 and 5 years, depending on the size of the contract and the established trade practice for the goods concerned. Any contract relating to capital or semi-capital goods which ECGD deems appropriate for credit of 2 years or more can be covered; in practice this normally means contracts of about £10,000 upwards.

Drawings from the bank are made by the exporter through the purchase by the bank of the relative accepted bill of exchange or promissory notes accepted or made by the buyer to secure the deferred instalments of principal under the supply contract. Supplier credits are only available in sterling, and are usually provided for a maximum of five years (except where other factors, such as the size of the contract, dictate otherwise), repayable in monthly to six-monthly instalments. The terms of the credit are set out in a facility letter which the bank writes to the exporter, and the terms of payment, so far as the buyer is concerned, are set out in the supply contract. It should be noted that, even though the supplier credit facility is in sterling, the underlying contract may be in another currency.

ECGD's cover to the financing bank under a specific bank guarantee is 100% as regards principal, and interest if requested, but the exporter is only insured, under his basic policy, as to 90% of any loss, (although this can be increased in certain selected cases to 100% cover following a certain period of trouble-free experience for each contract). Unless removed in this way, it follows that ECGD has recourse – which is automatically exercised – to the exporter for 10% of the amount of any claim that is paid to the bank as well as maintaining, of course, the full right of recourse up to 100% in the event that the exporter is in default under his supply contract or under his basic policy.

Refinance and interest make-up arrangements will apply to supplier credits, from 1st April, 1978, in the same way as under the new sterling buyer credit scheme, and, as in the case of buyer credits, it is envisaged that the commission structure will be similar. This would include a 1% flat commitment commission, and a flat negotiation commission depending on the size of the facility. An annual management commission is not normally payable. Interest and banking charges, under a supplier credit facility, as well as the ECGD premium, are paid by the exporter, and he can make whatever charge he likes (or can get away with!) to his buyer for providing credit. The exact rate of interest to apply is determined by ECGD in each particular case, and the amount of the commissions is agreed between the exporter and the bank.

What I have just said has dealt with the export finance facilities available for capital and semi-capital goods. Raw materials, semi-manufactured items and consumer goods normally only merit 180 days ECGD-covered credit, whatever the value of the relative contract. In these cases ECGD will guarantee banks who provide a sterling facility to their exporter clients at a rate of interest, calculated on a day-to-day basis, of $\frac{5}{8}\%$ per annum above their Base Rate from time to time. Under this facility the bank issues to the exporter a facility letter under the terms of which the bank purchases bills or notes up to a revolving limit set by ECGD. The guarantee of ECGD to the bank is for 100% of the principal value of the bills or notes, but interest is not covered.

Bond Cover

I was also asked to say something about bonding and insurance, because these are matters which are of great importance to contractors involved in large international contracts. Indeed, buyers both in the U.K. and overseas are increasingly requiring the provision of substantial performance bonds and guarantees, and there is a big difference between the traditional type of bond and the bond which is now mostly demanded. Moreover, the size of contracts is much larger than it used to be, and this increased demand for bonding requirements, both in amount and in value, has created new problems. Bonds can be provided either by banks or insurance companies; as a banker, I am more qualified to speak of the role of the banking system in the provision of bonds, so I will concentrate on this aspect.

There is a considerable difference between the traditional type of bond and the bond which is normally demanded now, particularly by buyers in developing countries. The traditional bond gave an assurance that if the contractor was not able to complete the contract, the guarantor would ensure its completion or reimburse any additional costs occasioned by the buyer. Now, however, many buyers, particularly in developing countries, require a bond which entitles them to demand a specific sum of money from the guarantor.

It will be seen, therefore, that there are two types of bond. Firstly there is the bond which places the burden of proof on the buyer to prove default by the seller and the loss occasioned. The second type of bond is an "on demand" bond under which the beneficiary is entitled to demand payment at any time from the guarantor and the guarantor is obliged to pay up without question. Should the seller feel that the bond has been improperly called it is for him to take the appropriate legal action against the buyer. In the case of both types of bond, the guarantor will retain recourse to the seller for any monies that he is required to pay.

Within these two particular categories of bond, the different varieties of bond which may be required would include:

1. *Tender bonds* to ensure that the contractor's bid is a serious one and that the contractor will carry out the work in the event that the tender is awarded to him.
2. *Performance bonds* which guarantee that the contractor will satisfactorily perform his contract.
3. *Advance payment bonds* which undertake that these monies will be returned to the buyer if the work to which they relate is not satisfactorily performed.
4. *Maintenance bonds* which undertake that the contractor will fulfil his obligations during the maintenance period.
5. *Retention Bonds* which are given as an alternative to retention monies.

In the U.K., bonds can be obtained from either insurance companies or from banks. So far as banks are concerned, however, they normally regard bonds issued by them as part of their customer's credit facilities. An "on demand" bond is preferred by banks who do not like to get involved in legal arguments as to the appropriateness of a claim. When an "on demand" bond is called, the bank will, of course, pay up without question in accordance with their mandate which they have a legal duty and obligation to do.

In appropriate cases, ECGD is able to support the issue of bonds by U.K. banks and surety companies. At the outset, this scheme only applied where the contractor was unable to obtain a bond in the commercial market, but now it is open to all contractors, subject to certain conditions being fulfilled. The contract value must be £500,000 or more, the payment terms must be cash or near-cash and ECGD basic cover for the contract must have been taken out. ECGD will also, of course, examine the relative contract in detail and, at the same time, will require to satisfy itself that the contractor and the major sub-contractors are competent to undertake the work required of them thereunder.

Once the surety has paid a claim under the bond, ECGD will reimburse the surety for the amount so paid within 30 days. The Department maintains recourse to the contractor for any amounts paid under its guarantee, but is unlikely to exercise its right where the bond has been called through no fault of the contractor. ECGD's premium rate for bid or tender bonds is 1% per annum and for all other bonds 1½% per annum with a minimum charge of one year's premium in both cases. In the case of bonds where liability reduces during the currency of the bond, the premium rate will be charged on the mean bond value for the full risk period. These charges are, of course, additional to the charges made by the surety for providing the bond, and are also additional to ECGD's premium for the basic credit insurance which is, as already stated, required for the contract concerned.

In the case of foreign currency bonds, ECGD's guarantee will be expressed as a sterling equivalent, but the provider of the bond is permitted to ask for whatever reasonable margin he requires in order to cover all possible currency fluctuations. It will be seen, however, that the higher the margin that the surety company requires, the larger the amount of premium which the contractor will have to pay to ECGD. I think I should stress, as I have already mentioned, that an "on demand" bond means precisely what it says and the bank or surety company which has given the bond is legally obliged to pay on the first demand being made of it by the beneficiary. Whether or not the contractor is in default is entirely irrelevant and there are recent court cases which have maintained this principle without a shadow of doubt.

Tendering is, of course, a competitive situation and although it is easy to say that contractors should refuse to tender for contracts where bonds of this sort are required, if contractors in other countries are prepared to provide these, there really appears to be little alternative. At the end of the day, however, it is for the potential contractor to decide whether the business is worth any risk that he may see there. However, there is one ray of light in this possibly rather dark horizon and that is that ECGD provides a facility giving cover against an "unfair calling" of a bond. Contracts on credit as well as cash terms are eligible for this cover, and there is no minimum contract value. ECGD does require, however, that the buyer should be in the public sector and the contract must be covered by a basic ECGD insurance facility. The premium for this insurance is 0.5% per annum with a minimum of one year's charge.

I also understand that cover for the "unfair calling" of bonds can be obtained in the private insurance market, on terms which must be negotiated between the con-

tractor and the surety company in each individual case.

Some buyers demand "open-ended" bonds, that is to say bonds which have no expiry date. It goes without saying that these demands should be strongly resisted and that a final completion date for a bond is highly desirable. However, even where there is such a completion date some local jurisdictions over-rule these. In one country, I understand, a performance bond has an automatic life of 10 years irrespective of the termination date and I am told that in another bonds are valid for 60 years regardless of what the bond actually says. In a third country, a bond is valid until physically returned, again notwithstanding anything to the contrary that may be contained therein. It is thus most important in a contractor's own interests that he should do his homework on such local regulations as these before getting involved in overseas bonding situations.

It normally happens that in the case of consortia or joint ventures, the guarantor requires each member of the consortium to assume a joint and several liability; that is to say he has responsibility not only for his own share of any loss but also for the shares of his partners as well. In the case of large contracts, this was obviously a somewhat inhibiting factor. ECGD has, therefore, introduced a form of cover whereby members of a joint venture contracting overseas are insured against losses which they may sustain as a consequence of the insolvency of one of their partners. To qualify for this cover contracts must be of the value of £20 million or more and the main contractor is insured for 90% of the loss occasioned by the insolvency of a sub-contractor or fellow joint venturer which is contractually due from him, but cannot be collected. The premium for this cover is 1½% per annum on the maximum liability. More recently ECGD has extended this facility so that, in the case of contracts for overseas projects of value £50 million or more the main contractor may insure against 80% of any losses arising in a situation which falls short of the insolvency of a sub-contractor or fellow joint venturer but which was beyond the control of the main contractor. ECGD's premium for this cover is a flat 2% of the U.K. contract value. Each application for this new cover is considered by ECGD on a "case-by-case" basis.

Tender to Contract Cover

Perhaps I should now say something about tender to contract cover, another relatively new ECGD facility. In order to assist contractors tendering for contracts in foreign currency, and to enable them to take advantage of ECGD's foreign currency buyer credit financing arrangements which I have mentioned, ECGD has developed a form of cover to protect exporters who bid in foreign currency against forward exchange rate fluctuations. Exporters contracting in foreign currency need to know how much sterling they will earn from their currency receivables in order to fix their contract price. The forward foreign exchange market enables them to do this, but when bidding for project business there is often a period of several weeks, or months, between the time at which exporters are required to tender and fix their price, and the time at which the contract is awarded. Although under current U.K. exchange control regulations, exporters may sell forward payments to be received under a contract for the period between tender and the expected date of contract signature, failure to

obtain the contract exposes the exporter to the cost of unwinding the forward exchange transactions, whilst, even if successful in winning the contract, the estimated date of signature, on which the transaction is based, is still an estimate. ECGD's tender to contract facility will bridge the gap between the forward exchange rates available at the date of tender and date of contract by guaranteeing exporters the same sterling equivalent for their contract as would have been available had they sold forward their currency receipts at date of tender.

But there is one drawback to the scheme, and that is that it only covers tender periods of between 3 and 9 months. If the contract is obtained within this period, the exporter will be required to sell forward his foreign currency receipts. If the sterling amounts produced by these forward contracts are less than the outturn guaranteed by ECGD, the Department will pay the difference to the exporter, within the limits of 3-25% of the contract value. Conversely where the amounts of sterling produced by forward sales exceed the guaranteed sterling outturn, exporters are required to pass the excess to ECGD, within the same limits of 3-25% of contract value. The contract concerned must also be covered by one of ECGD's basic facilities.

Regarding costs, there is a flat non-returnable charge of £5,000. On obtaining a firm contract, the exporter is charged a further amount of premium, the total charge being based on the period of cover. Cover is available for a minimum period of 3 months at a rate of 3 per mille. Cover for periods up to 6 months are charged at 1 per mille per month, and for periods between 6 months and a maximum of 9 months at 1½ per mille for each further month.

Cost Escalation Cover

Not to be confused with this, is insurance against cost escalation (as opposed to foreign currency fluctuation, which we have been discussing). This insurance cover applies to export contracts with £2 m. or more, with a manufacturing period of 2 years or more. Under Section 5 of the Export Guarantees Act 1975, ECGD is empowered to give a measure of cover against U.K. cost increases for capital goods contracts. This scheme has been extended for a further year from March 1978, but not much use has been made of it, and I understand that only a small number of guarantees have been issued.

The scheme only covers certain costs incurred in the U.K. Foreign costs and non-U.K. sub-contracts, profits, fixed elements in overheads and contingencies are not covered. ECGD, therefore, covers a proportion of annual cost increases above a threshold up to a prescribed ceiling, i.e. within a band of cover. Exporters can choose their threshold, subject to a minimum of 7% per annum; the higher the threshold, the wider the band of cover, and a more generous band applies to contracts on cash terms than to those involving credit. Particularly now that inflation in the U.K. is not so serious, I cannot see much further use being made of this facility which was, in any event, considered to be expensive for the limited amount of cover provided.

I have said more than enough, but it is a complicated subject on which I have been working for about 15 years, and am still learning. So it is only possible to outline some of the more important aspects in 45 minutes. But if there are any questions on anything I have said, or for

that matter anything I have not said, I should be more than happy to try to answer them.

Let me then leave you with these thoughts. If any of you, in the course of your business activities, come across a project the financial side of which you do not feel able to handle yourselves, or if you are asked to find finance for a project (probably in a "difficult" country) which, if it got off the ground, would engage your own services, I hope that you will not hesitate to let me know.

MINISTRY AID

Speaker

The speaker on this subject was A. F. Collings, Director (Exports) West Midlands Regional Office, British Overseas Trade Board. Mr. Collings entered the Civil Service in 1938 and, apart from war service in the Royal Navy, has spent his whole career in the public service. Virtually all this period has been spent on exports and has included service overseas in India, Canada, Australia and Nigeria. Mr. Collings has been Director (Exports) in the West Midlands Regional Office of the Department of Industry for two years.

Introduction

The British Overseas Trade Board was established in 1972, and is composed of a cross-section of businessmen, with representatives of the Trade Union Congress, the Associated British Chambers of Commerce and the Confederation of British Industry supported by officials from the Foreign and Commonwealth Office, the Department of Trade and the Export Credits Guarantee Department. Its responsibilities are to ensure that the views of industry and commerce are taken into account by the Government, and that the export promotional activities of the Government take full accord of the needs and problems of businessmen. It gives directions on the day-to-day working of the official Government export services in London and export sections of the regional offices in the provinces; both in co-operation with the Foreign and Commonwealth Office and overseas posts. As a further input there are sixteen area advisory groups to advise on policy in the main trading areas. Through these area advisory groups the Board draws on the experience of businessmen with a first hand knowledge and expertise of the areas to which they are accredited. There is also the British Overseas Trade Advisory Council. This is about sixty strong with the chairmen of the overseas advisory groups, and representatives of the TUC, the CBI, Chambers of Commerce, Export Houses Association, Institute of Export and export clubs.

The divisions which come under the direct control of The Overseas Trade Board are the Export Services and Promotions Division, the Overseas Project Group, which is the focal point for dealing with problems associated with large projects and the Export Development Division which is concerned primarily with the control of expenditure, general policy on the development of BOTB services and publicity. Not under the wing of the Overseas Trade Board, but working closely with it, is the Commercial Relations and Export Department in London, which is concerned with the protection of U.K. interests overseas. It fosters a favourable climate in which ex-

porters can work and is concerned with such matters as Government to Government negotiations and discussions on aspects which might adversely affect our trade, such as tariffs and non tariff barriers. The CRE divisions are particularly useful sources of information on the economic climates of our overseas trading partners, and those divisions concerned with East-West trade have a great deal of knowledge of intricacies of trading with the Eastern bloc.

How can The BOTB help?

But how can The British Overseas Trade Board, through Export Services and Promotions Division in London, and the regional offices in the main provincial cities help? We can help with information, advice and financial assistance. We are not, however, experts in a particular industry, but from our day-to-day contact with a wide range of companies and a wide variety of problems, we get a good cross-section of the needs and problems which can arise overseas. This generalised knowledge, together with the exporter's own knowledge and expertise, can give him a fuller picture of what he should be doing. We do not say what or where to export; this is for firms' own commercial judgment having taken into consideration all the information available to them.

Information

To start, a good "jumping-off" point for information is the Statistics and Market Intelligence Library at Export House in Ludgate Hill. This is one of the largest commercial libraries in the world. It is a public library with public library hours and is extensively used both by small and large researchers. As an indication of its use, it has over 35,000 visitors a year making use of the facilities available. On its shelves are many thousands of volumes of trade and economic data on foreign countries, there are international statistics issued by the EEC and the United Nations and these are particularly useful, for they normally give comparisons for a number of countries and can save you delving around a whole mass of individual issues; there are foreign trade and telephone directories and foreign countries development plans are also available.

Also as a preliminary marketing tool there is the Overseas Tariff and Regulations Division, again at Export House. The information available in OTAR is much wider than the name implies. It not only carries information on tariff barriers and tariff rates in overseas markets, but also on non-tariff items which can be a hinderance to trade, such as import licensing, local regulations and standards, packaging and labelling requirements, information on the importation of samples and a whole host of other regulations. Together with the Library, OTAR provides a great deal of basic data which an exporter needs to know.

Another possibility for basic information is the Export Intelligence Service, a computerised service fed daily by market intelligence and advice from the 220 Embassies and Consulates overseas. No-one wants to get every snippet of information (there are over 300 a day) as you can specify the products you are interested in, the countries you want the information about, whether you want background intelligence and whether you are thinking in terms of specific calls for purchasing or tender or of knowing if a potential agent is seeking a long term

partnership. You can also specify to which persons in your organisation the pieces of information should be sent, if different executives deal with different aspects of your business. The computer can handle any combination. It is a service that you have to pay for, not very much, thirty-seven pounds fifty for one hundred and fifty items, but if you are a newcomer, we can give you a three months free trial. The EIS is very well used by industry, there now being more than 8,000 subscribers.

Advice

We can obtain for you brief market assessments to see whether there is a potential market in the countries which from initial research seem to show promise. We can ask the overseas post to report in general terms what local preferences are, what competition is likely to be met, and generally whether it is worth your spending more time and money on going on with detailed marketing plans. If, however, you want to explore the market in depth you may wish to take advantage of the Export Marketing Research Scheme. We have in London a professional market research adviser who will help in drawing up an outline of your research requirement and selecting suitable agencies to carry it out for you. He will also help in drawing up instructions for consultants and advise on probable costs. Of particular interest is that for individual firms, we can assist with up to one-third of the cost of the market research, and for two or more companies commissioning the same research we can assist with up to 50%. If a Trade Association commissions the work, then the assistance is up to two-thirds. Financial help can also be given for "in house" research and advice offered on establishing your own research facilities. Other than for Trade Associations any research and its commissioning is strictly confidential. Incidentally, if any of you are looking for information on readily available published research, there is an excellent International Directory of Published Research which is available from us.

Assistance

Having undertaken basic research, where now do you get names of possible contacts? You may wish to appoint an agent overseas, in which case we can ask the overseas post to undertake "on the spot" research on your behalf and to make a selective approach to reputable agents. We do not, however, negotiate on your behalf and once an agent or agents have expressed an interest in principle, then it is up to you to carry out your own negotiations. For this service a charge of £50 is made and even if we are unsuccessful in finding an agent, the charge is still levied to cover the cost of research that the overseas post has carried out. But we will tell you the reasons for lack of success.

It may be that you will have an approach from an overseas company seeking an agency. If you do not know the company you will probably wish to have a status report. This we can supply. Our reports are designed to show the ability of the overseas company to act as an agent or distributor on your behalf. They are not appropriate for "one off" buyers, but are designed to advise you whether it would be sensible to enter into a long term arrangement. We would report on the company's capabilities, the areas it can cover, the number of salesmen it has to cover the territory, and what kind of outlets

it is already selling to. We would also report on the availability of warehousing facilities and "after sales" services if these are needed for your product. Again there is a nominal charge; £10 for each report. They are not credit ratings; these you will need to get from a bank or a credit agency who are much better equipped to provide this information. So we are complementary to and not in competition with our friends in the private sector.

It may be, however, that all you wish is the name of potential importers. We can ask the overseas post for such a list, and we will make a nominal charge of £1.

Armed with the basic information on the market and possibly with the names of potential agents or customers you may consider it necessary to visit the market. Should this be so, ask us to write to the overseas post forewarning it of your visit and of your objectives and the type of information you are seeking. If we can give the post these indications it can make preparations for your arrival. The information obtained for you could possibly save you days of trouble and expense.

Missions

You can cut down the costs of visiting by joining an "outward mission". This needs forward planning because these are organised some considerable time in advance. They are run by non-profit making bodies, such as Chambers of Commerce, Trade Associations and the like. We can give financial assistance to missionaries on a flat rate basis, depending on the country or countries to be visited. For example, the present assistance that we can give for a trip to Australia and New Zealand is £575. There are, of course, certain rules. For instance you have to spend two-thirds of the mission's scheduled time in the territory. On the other hand you can always stop over and spend longer if you feel it is necessary, without any obligation to return any of the money.

On the other side of the coin there are "inward missions", which bring in groups of potential buyers from overseas. Again, these missions are sponsored by non-profit making organisations with the Board meeting a large part of the costs.



I'm off to the land of oil, tin, palm kernels, cocoa, ground nuts, cotton and great opportunities!

Fairs

You may find it useful to show your goods overseas. The Fairs and Promotions Branch in London, again working through non-profit making sponsors, arranges collective presentations at trade fairs throughout the world. There is a charge for participation in these fairs, fifteen pounds a square metre for inside space and seven pounds fifty for outside space. This is way below the cost of exhibiting on your own, and for new exhibitors at a fair there is a fifty per-cent discount given for their first two participations in a particular joint venture. For this money we provide a stand, generally up to fifteen square metres, services, and for company representatives at fairs outside Western Europe, we pay fifty per-cent of travel costs. In some parts of the world, mainly outside Western Europe, it is necessary to have British pavilions. The charges are somewhat higher for exhibiting in a British pavilion but still very good value.

We can help too if you are thinking of organising a synopsis or seminar, which are often held in conjunction with fairs. Such seminars must bring specific products and processes or services to equally specific buyers etc. We charge a £100 fee, but what you get back is most impressive. You get hire of the auditorium, the translation of papers and filmscripts, interpreter's fees and costs of programmes, invitations and graphics. If you are travelling outside Western Europe you also get outward mission support.

Market Entry

It may be that you will wish to set up your own organisation overseas. The Board has recently introduced a scheme to help you bear the financial risks of going overseas in such a way; it is known as the "Market Entry Guarantee Scheme". It provides for a contribution of

50% of overhead costs which is repayable, but the Board additionally underwrites the success of the venture. The details of the scheme are rather complicated, but basically we would, for the investment period, charge 3% for the insurance and would also charge 2½% over base rate for the amount of money provided. If the venture is a success, the Board's contribution is repaid by a levy on sales receipts over a long period, but if not a success, no levy payments are required and we share the loss with you.

Other Government services

Also of interest to you gentlemen here today is an organisation which comes under the wing of the British Standards Institute. This is The Technical Help to Exporters Unit at Hemel Hempstead. THE's technical services include the identification of overseas specifications and assistance in their interpretation, detailed information on regulations and approval systems, help in meeting technical requirements such as test certificates, and testing and factory inspections in the U.K., if this is acceptable to the customer. If you have any technical problems it is well worth getting in touch with Technical Help to Exporters.

There are two other Government Departments actively involved with exporting both of which warrant a talk as detailed as this. I will however have to be content with only a short mention. If you require publicity overseas, the Central Office of Information is your contact. Two-thirds of the output of the Central Office of Information is directly concerned with promoting exports. The BBC, through their overseas networks, also can give you publicity, if you have a good "newsworthy" story. At the end of the day you still want to get paid for your export endeavours so always remember the fine facilities offered by the Export Credit Guarantee Department.

The measurement of Mechanical and Engineering Services in Buildings

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Introduction

The term mechanical and electrical engineering services includes the entire range of plumbing, drainage, heating and ventilating, ductwork, insulation and all types of ancillary equipment and services together with all electrical and other services. Measurement of these works is covered under sections R and S of the new sixth edition of the standard method of measurement.

Where these services are relatively straight forward such as domestic plumbing, heating and electrical installation the architect may prepare working drawings

as usual and professional quantity surveyors are frequently involved in production of bills of quantities for these elements. However, the design and purpose of these services is becoming more involved and complex and it is now usual for the architect to ask a consulting engineer to design and detail these services. The increased complexity of these

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