

Export Finance

A new article on the subject—prepared by Williams & Glyn's Bank Ltd.

The Problem

Although exports constitute the life blood of the British economy, the individual exporter who sells his goods abroad is regularly presented with a whole series of often quite complex problems. In selling to foreign markets information and expertise are at a definite premium.

Export finance has been an important part of the business of the English and Scottish Clearing Banks for many years. During this time, new techniques have been developed to meet changing commercial conditions. Banks are usually happy enough to provide facilities to help finance export sales, but the knowledge that the debts have been insured in advance naturally increases their willingness to do so.

What is ECGD?

The Export Credits Guarantee Department, which is a separate Government department responsible to the Secretary of State for Trade, was formed in 1919 and began offering credit insurance in 1930. Since then its activities have expanded considerably, and currently the Department provides insurance for three main categories of risk—the credit worthiness of the buyer, the transfer risk and the political risk.

In controlling the terms on which credit is offered by U.K. exporters ECGD operates within the framework of the recommendations laid down internationally by the Berne Union of credit insurers.

The assignment of ECGD's basic insurance cover may be acceptable as collateral for bank advances. In addition to providing direct protection for the exporter, ECGD may guarantee the exporter's bank which is then able to provide facilities at preferential interest rates. Indeed it is probably true to say that without the medium and long term bank guarantee support offered by ECGD the banks would be unable to provide the finance required thus placing UK exporters of capital goods at a serious disadvantage.

ECGD Guarantees to Exporters:

1. Comprehensive policies

These apply to trade of a continuous nature, often conducted over the years with a standard range of goods and the same regular buyers, where the spread of risks is wide and where the exporter undertakes to cover either the whole of his export business for not less than twelve months, or all his business in an agreed range of good and bad markets, for all types of risk.

The Comprehensive Short Term Guarantee

This provides cover in respect of goods exported on credit terms of up to six months. If required the exporter can arrange for all his exports to be covered from the date of contract ("the pre-credit risk") provided the goods are to be exported within twelve months of the date of contract. With the

Comprehensive Guarantee, ECGD is not informed of individual transactions unless substantial delays in payment or events likely to cause loss arise. The exporter ensures that his outstandings on each buyer are kept within an agreed credit limit; if he wishes to give substantial credit to a new buyer or abnormally increase credit to an old one, he seeks ECGD agreement.

The Supplemental (Extended Terms) Guarantee

This policy is available to cover goods sold on credit terms in excess of six months (e.g. engineering goods), but not normally exceeding five years, or to provide "pre-credit risk" cover for goods sold on less than six months' credit but having a delivery period longer than twelve months but not normally exceeding two years. It is only available to policy holders already in possession of a Short Term Guarantee. Under this Guarantee each individual contract must be approved by ECGD in writing.

2. Specific policies

This category comprises large, single capital transactions overseas, for the supply of equipment such as electricity generating sets, heavy industrial plant, equipment for whole factories, etc., and provides insurance cover either from the date of contract or from the date of shipment, the contract basis being more usual because of the lengthy manufacturing or preparatory periods commonly involved.

Specific policies are negotiated with ECGD at the same time as the contracts to which they apply are negotiated with the overseas buyer.

ECGD Guarantees to Banks:

1. Comprehensive Banker's Guarantee (Bills or Notes)

2. Comprehensive Banker's Guarantee (Open Account)

Type of goods, length of credit and rate of interest

The goods covered by both the Comprehensive Banker's Guarantee (Bills or Notes) and the Comprehensive Banker's Guarantee (Open Account) need not be of any particular nature.

Under the Bills or Notes scheme credit payments due under the contract must be secured either by promissory notes made by the buyer or by bills of exchange drawn on and accepted by the buyer and bills must be drawn for sight payments. The length of credit must be stated on the invoice and may range from cash against documents overseas to six months from receipt of the goods overseas, subject to a maximum shipping time of one month.

Under both schemes finance is currently provided by the banks at $\frac{3}{8}\%$ over Base Rate.

3. Medium Term Bank Guarantees (Supplier Credit)

In order to be able to make a competitive offer to a prospective buyer, a British exporter is often required to include the option of credit terms. For exports of capital goods, such as medium to heavy industrial equipment or constructional works, a credit period of two to five years is usually offered. The simplest and least expensive method for the exporter to finance such contracts is by arranging a medium term supplier credit bank facility against an ECGD Bank Guarantee.

Interest is charged to the exporter at a preferential fixed rate for the whole period of the facility. Negotiable instruments are necessary.

Buyer Credit Guarantees and Lines of Credit

Under these arrangements, a loan can be extended by a U.K. bank to an overseas buyer. This has the advantage for the exporter that payment to him is on "cash" terms. The minimum contract value to qualify is £1 million, and the term of the loan would normally be five years from completion of the U.K. supplier's contractual responsibilities. The currency of the loan is usually sterling or U.S. dollars.

Lines of Credit may also be established for general financing of capital goods or for the requirements of a specific project.

Other services:

Eurocurrency loans

Should an overseas buyer require finance in excess of available ECGD guarantee facilities, the financing bank may be willing to provide an additional loan through the Eurocurrency market. Such a loan, which bears commercial rates of interest, must usually be repaid within the life of the related ECGD credit.

Selling in a foreign currency

Deciding on the right currency to use can be a problem once a contract is signed. The bank may be able to purchase the exporter's foreign currency receivables at fixed forward rates which may well be at a premium by comparison with the "spot" rate. Alternatively, a matching currency loan might be arranged. However, with the foreign exchange market's movements as volatile as they are at present, a U.K. exporter with production costs principally in sterling is well advised to consult the bank before determining the rate at which he should convert his sterling price into a foreign currency quotation. This is vitally important where there is a long lead time from tender to contract.

Tender to Contract Cover

In addition to any advice the bank may be able to give in connection with bidding for a contract in a currency other than sterling, a

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measure of cover may be available from ECGD to protect against exchange losses during the tender to contract period.

Bond Support

ECGD may be prepared to provide indemnities to banks to enable them to issue Tender Bonds, Performance Bonds and Advance Payment Bonds for certain classes of U.K. exports. These are usually the "on demand" type of bond where the beneficiary

can "call" the bond without having to prove that the exporter has failed to comply with the terms of the contract.

Pre-shipment Finance

In anticipation of the receipt of direct payments from the buyer or of the utilisation of ECGD facilities, the bank may be willing to provide pre-shipment finance at commercial rates with recourse to the exporter, and in addition to his existing overdraft arrange-

ments if necessary. This may relieve cash flow problems during manufacture.

Publications

There are a number of publications from both Government organisations and banks which are available to help exporters. One of these is Finance for Exports, which is available from the Export Finance Office of Williams & Glyn's Bank, International Banking Division, 5/10 Great Tower Street, London EC3P 3HX.

THE EUROPEAN ENERGY SCENE is the subject for the Watt Committee on Energy Tenth Consultative Council meeting being held at the Institution of Mechanical Engineers, 1 Birdcage Walk, London SW1 on Thursday, 21st May 1981.

THE EUROPEAN ENERGY SCENE will be presented in a highly informative style and, for each of the countries represented, their energy situation, government energy policy, and expectations through to the year 2000 will be covered.

Papers will be given for the countries set out below:

Denmark—Dr. Hans Larsen, Head, Energy Systems Institute Risø National Laboratory.

France—Mr. Jacques de Pemille, Association Technique de la Siderurgie Francaise (ATS).

Germany—Dr. G. Meurin, Rheinisch-Westfälisches Elektrizitätswerk, Essen.

Italy—To be nominated.

Netherlands—Mr. G. W. Van Stein Callenfels, Hoogovens IJmuiden BV, IJmuiden.

U.K.—Mr. D. le B. Jones, Deputy Secretary, Department of Energy.

This Open Session of Consultative Council is from 10.30 a.m. to 4.30 p.m. and morning coffee is served from 10.00 a.m. Institution members are asked to apply to the Watt Committee Secretary on 01-245 9238. Price including buffet lunch and VAT £18.40 per person.

New Occasional Paper from Chartered IOB

For almost 150 years the British construction industry has used bills of quantities as the means of selecting the successful tenderer from competing contractors. Although at the present time the bill is still prepared with the principal objective of satisfying the needs of tendering, it is also used extensively by the contractor as an information source.

The Chartered Institute of Building's latest Occasional Paper No. 24 "The contractor's use of bills of quantities", by Dr. D. W. H. Skinner, presents a detailed examination of where and how the bill is used and the usefulness of the information to contracting. For the construction industry to continue to justify the bill simply as a vehicle for contractor selection is a failure both to recognise its present extensive service to production, and its potential contribution.

The principal reason for the inadequacy of the bill both as a tender document and as an information source to contracting lies in the fact that the requirements of production are not considered. The quantities themselves are seen to be inadequate for the need of tendering and production, although the concept of measuring work fixed in position inclusive of labour, materials, plant, overheads and profit is upheld as being the most appropriate format.

Estimators and contractors' quantity surveyors were observed to disagree significantly on a number of fundamental matters concerning the adequacy of the bill for tendering purposes. On every occasion of disagreement surveyors were of the opinion that the information was adequate whereas estimators were of the opposite opinion.

Dr. Skinner concludes that proposals for change should have regard to the whole contribution which the bill makes to the contractors' work, for only then will current documentation be surpassed, the industry's need met and the client's best interests served.

Dr. Skinner is Head of Department of Construction and Surveying at Birmingham Polytechnic, and is at the present time pursuing post-doctoral research into the cost significant factors in tender measurement, the aim being to examine the possibility of simplification. He is supported in this by the Quantity Surveying Division of the Royal Institution of Chartered Surveyors West Midlands Branch, and the Chartered Institute of Building.

Occasional Paper No. 24 "The contractor's use of bills of quantities", by Dr. D. W. H. Skinner is available from the Sales Office, The Chartered Institute of Building, Englemere, Kings Ride, Ascot, Berkshire SL5 8BJ, price £2.00, plus 45p postage and packing to members of the Institute, and £2.50, plus 45p to non-members.

As this Occasional Paper will be of particular interest to members of the IQS, we are offering this Paper to them at our own members' price, namely £2.00 plus 45p postage and packing.

THE PLACE OF THE BRITISH CONSULTANT IN OVERSEAS TURNKEY PROJECTS

A full meeting of the British Consultants Bureau's Public Health Group took place at their Westminster offices in the middle of February.

Two guest speakers, Mr. R. H. Vincent, Managing Director of Mowlem International Limited, and Mr. F. Sanderson, Deputy Managing Director of Babcock Contractors Limited, and also Chairman of British Waters Industries Group, addressed the meeting on the complex problems facing Contractor and Consultant alike in securing an increased share of overseas contracts.

Mr. Vincent spoke of the constant pressure under which both Contractor and Consultant are subjected to obtain a greater share of overseas work, and in particular the larger contracts. His view is that the bigger contracts are not necessarily more profitable.

He also made a number of points relating to the advantages of adopting the turnkey method, i.e. earlier completion in the case of a hotel or factory, thereby giving an earlier return on money invested. The obtaining of cheap finance and the cutting of competition were other factors mentioned. The selection, character and organisation of the team of Contractor, Consultant and Sub-contractor is a vital part of the process of winning turnkey contracts. The relationship between these groups depends upon mutual regard, and experience at senior level is essential.

Mr. Sanderson advocated that the best mode for his company is to act as main Contractor responsible for the entire turnkey contract throughout. Alternatively, for joint venture enterprises, one party should be given overriding responsibility for carrying out the project. By

adopting the single authority concept both on site and in negotiations he believes that the turnkey approach would give the client the most cost effective solution, thus avoiding possible criticism that separate contracts for Consultants, Contractors and Sub-contractors produce too many profit centres.

Mr. Sanderson also advocates a much closer relationship between Consultant, Contractor and Manufacturers, and believes that overseas opportunities have been missed because of their fragmentation. Although suggesting that better results could be obtained by limiting numbers of process Contractors, he believes that small Consultants and specialised manufacturers, who as a result might be concerned about their future trading activities, would eventually benefit from the new hierarchy which would develop. Large organisations would sub-contract work requiring specialist skills to the smaller Consultants, Contractors and Manufacturers.

Mr. Sanderson concluded by suggesting that the traditional "class" relationship between Consultant and Industry is inappropriate in today's world and that Consultants should obtain clear authority to act as the Engineer.

BCB RECOGNISES CONSULTANCY OPPORTUNITIES IN GERMANY

Sir Jock Taylor KCMG, HM Ambassador-designate to the Federal Republic of Germany, met members of the British Consultants Bureau to discuss consultancy prospects in West Germany.

While it was agreed that the Germans were largely self-sufficient in civil engineering consultancy there were opportunities for joint ventures in a number of specialist fields. The German government, for example, was interested in developing tourist facilities in southern Germany and this was a field in which the Germans, unlike many British consultants, had little experience.

There was also scope for British consultants with a record of work in developing countries and in parts of the world where the Germans had connections but lacked experience in the development of infrastructure.

The British Quantity Surveyor had many opportunities for working with German companies where no comparable expertise existed.

Several Bureau members made the point that British consultants, unlike the Department of Trade, welcomed unconfirmed advance information on projects under consideration as the time delay involved in seeking official confirmation often resulted in our consultants making approaches too late to compete with local firms.

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