

CONSTRUCTION europa

THE MAGAZINE FOR EUROPE'S CONSTRUCTION INDUSTRY

www.construction-europe.com

November 2008

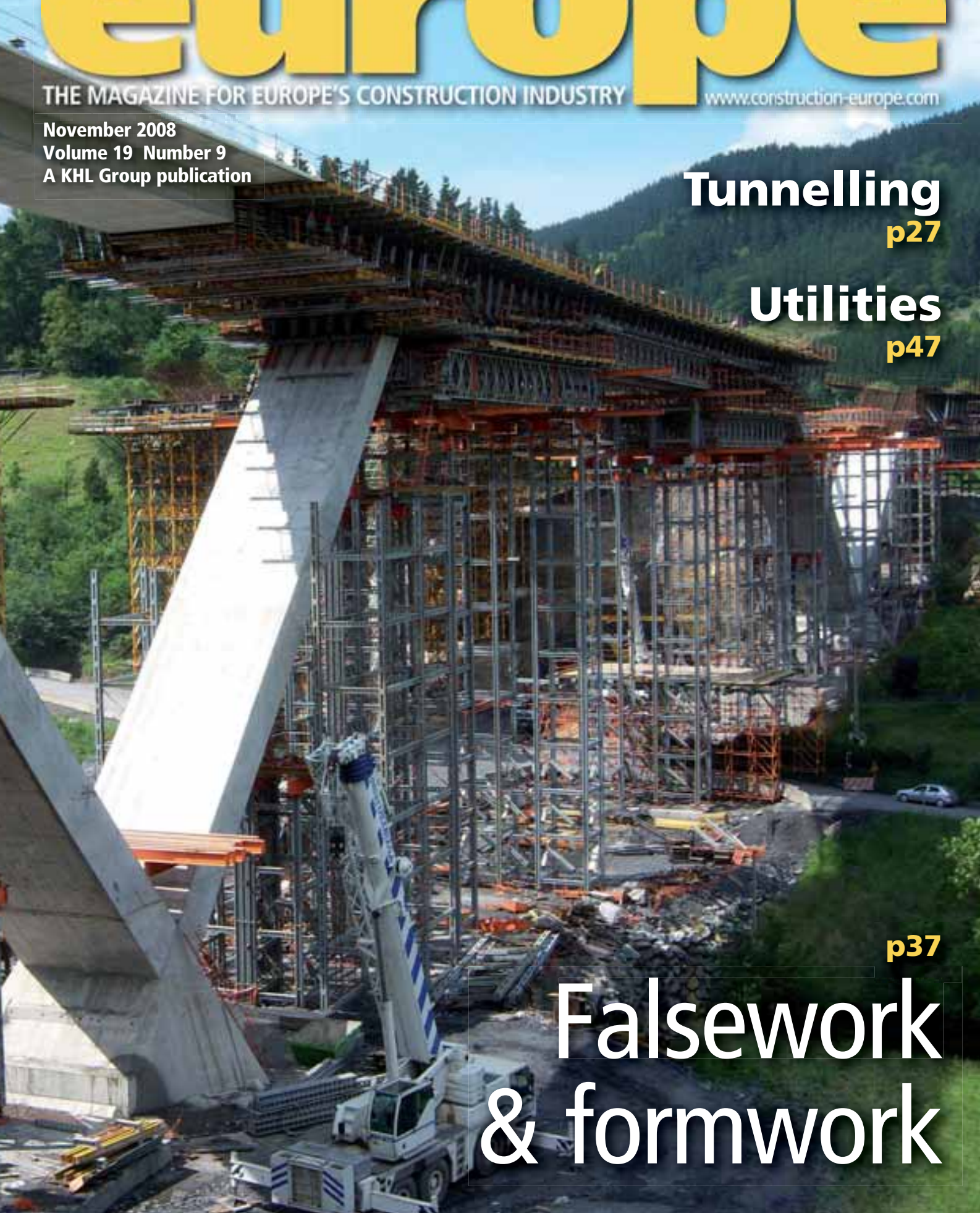
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A KHL Group publication

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Most construction work in Europe is carried out by domestic contractors, but according to new data from EIC, cross-border work is on the rise and accounts for about 5% of activity. CHRIS SLEIGHT reports.

Cross border growth

LAST YEAR SAW A RECORD € 64,6 billion of construction work carried out in Europe by contractors working outside their home market, according to data from European International Contractors (EIC). This was a +16,0% increase on 2006, and the fourth straight year that the volume of international work within Europe has risen.

But the figures also illustrate that domestic contractors carry out most construction work. According to the European Construction Industry Federation (FIEC), the value of construction work in the EU27 plus Norway, Switzerland and Turkey last year was € 1,47 trillion, so cross-border work accounted for less than 5% of the European total.

Although the volume of international work is relatively low, it has grown over recent years at a higher rate than the market as a whole. Even in 2007, when there was a slow down, at +4,5% the increase in international contracting was well ahead of European construction market growth, which FIEC put at +3,2% for the EU27.

In previous years, the rise in European cross-border work has been much more pronounced. In 2005 for example, the peak of the most recent cycle, international work

increased +29,7% year-on-year, as against a European market growth of +1,2% by FIEC's reckoning.

NEW CONTRACTS

Although growth in the cross-border construction sector slowed in 2007, the amount of work won still bodes well. According to EIC, some € 68,6 billion of new contracts were signed in 2007, a +6,3% increase on 2006. Again this rate of growth is lower than the double-digit rises seen in 2004 and 2005 in particular, but the volume of new contracts still hit an all-time high last year.

More significantly, new contracts were ahead of the volume of work done for the fifth straight year, which is indicative of a rising market. At € 68,6 billion, new contracts stood at 106,3% of the value of work done this year, which is the biggest (in both percentage and absolute terms) the gap has been.

So although the rate of growth slowed in 2007 for both new contracts awarded and the volume of work done, the data still points to higher volumes of international work in Europe this year.

WHO'S WORKING?

The dominant force in cross-border

European contracting is clearly France, with EIC's statistics showing French construction companies carrying out € 15,2 billion of international work in the region last year – 24% of the total.

The next biggest slice was won by Austrian contractors, with work totalling € 10,8 billion, or 17% of the total. Sweden's contractors claimed 15% of the European international workload, with a turnover totalling € 9,7 billion, while the Netherlands was the only other country with a double-digit share, with work totalling € 6,8 billion, or 11% of the total.

These four countries accounted for about two thirds of cross-border construction work carried out in Europe last year, with a total turnover of € 42,5 billion.

GLOBAL MARKETS

As one might imagine, foreign markets in Europe are by far the most important for international contractors in the region. Last year this group of construction companies carried out € 121 billion of work around the world, so the European total of € 64,6 billion equated to 53%.

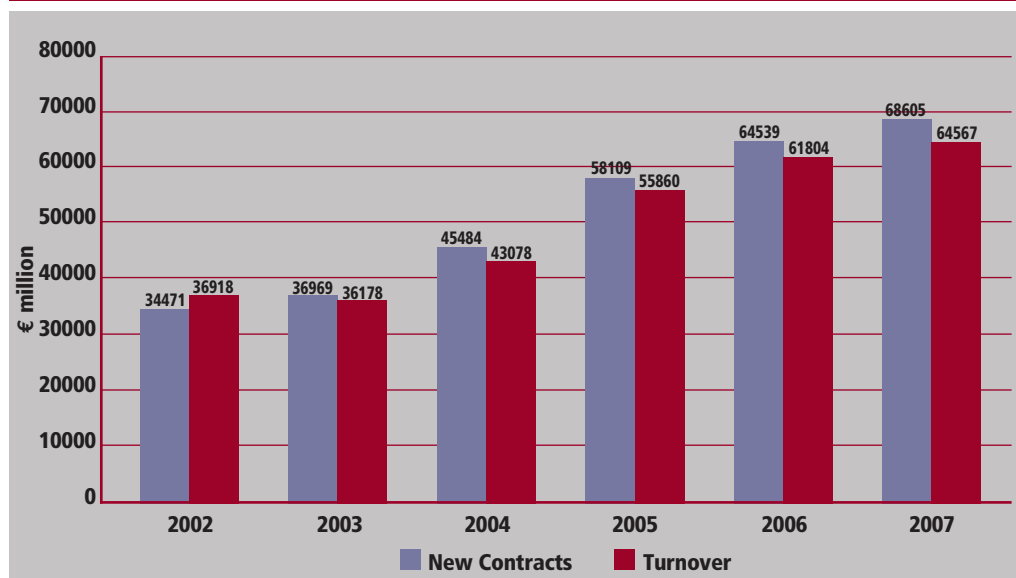
The next most important region was North America, where some € 18,8 billion worth of work was carried out – 15,5% of the total. However, there has been a sharp downturn in construction by Europeans in this region from 2006, when the figure stood at € 20,7 billion.

In fact the relative importance of North America to the European construction fraternity has been on the slide for some time. Back in 2002 for example, the region accounted for more than 25% of international work carried out by Europeans. The total value of that work was € 20,3 billion – not a huge change from today. But in the intervening period the significance of other markets, particularly the Middle East, has grown, diminishing the importance of North America.

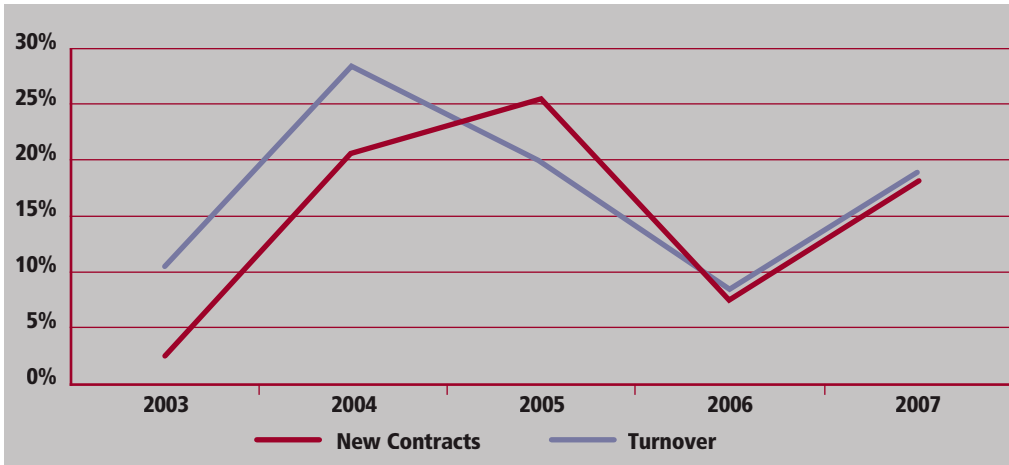
In 2003 the amount of work carried out by Europeans in the Middle East was negligible – just € 1,99 billion, only 2,8% of the total of € 70,5

■ For more information about EIC, visit: www.eicontractors.de

CROSS-BORDER CONSTRUCTION WORK IN EUROPE BY EUROPEAN CONTRACTORS



GROWTH IN CROSS-BORDER ACTIVITY IN EUROPE



billion. However, sharp increases in 2005 and 2006 in particular have seen that shoot up to € 10,4 billion, or 8,6% of European contractors' total international workload.

The relative size of other global markets has remained fairly steady over the last five years or so. Turnover in the Asian and Oceanic market totalled € 15,2 billion, or 12,5% of the total last year. Africa has grown a little in recent years to € 7,6 billion, or 6,3% of the total last year, while the smallest global market for European contractors last year was Latin America, with turnover totalling € 4,7 billion or 3,9% of the total.

GLOBAL GROWTH

New contracts won last year around the world by Europe's international contractors totalled € 146 billion – a record high and a +6,0% increase on the 2006 level of € 137 billion. At € 121 billion, the work carried out internationally was up +8,4% on the 2006 figure of € 112 billion.

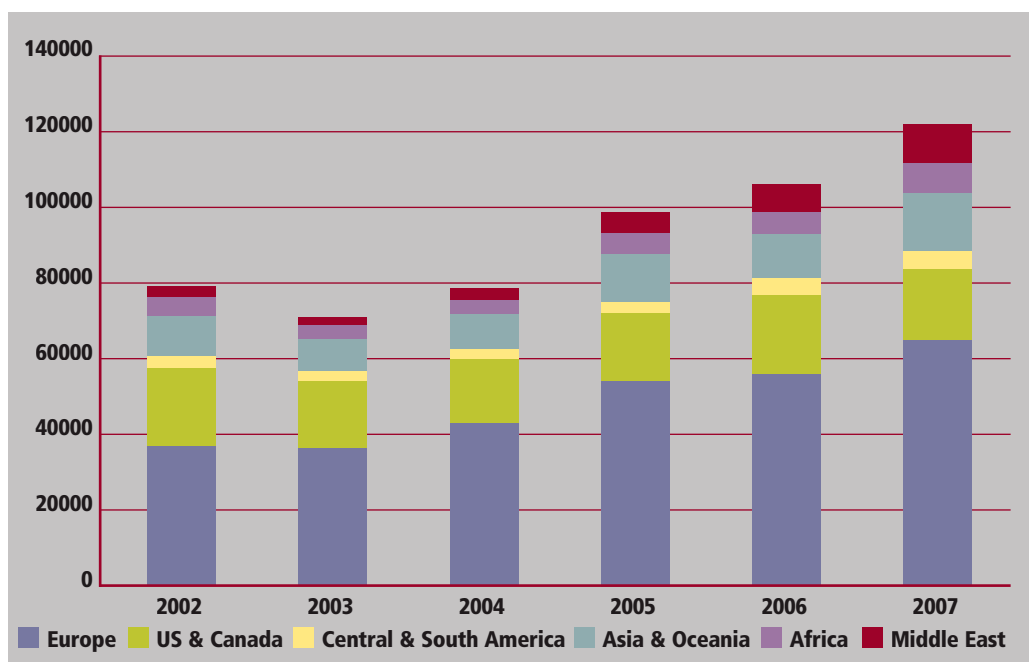
NEXT YEAR?

New contracts standing ahead of turnover is an indication of future revenue growth. However, the rate of growth for both showed a marked slowdown from previous years, particularly 2005 and 2006, when year-on-year rises were in the region of +25% to +30%.

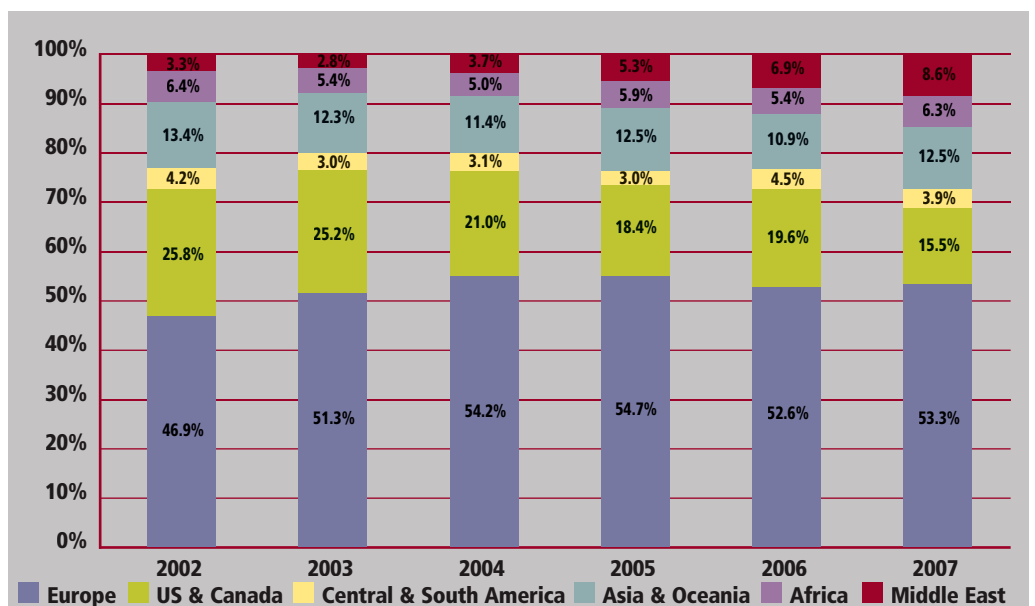
This suggests that while 2008 should still be good for European contractors working outside their national borders, a slowdown could be on the horizon. It certainly seems likely given the turmoil that has prevailed in financial markets since last year.

As part of an on-going co-operation with EIC, CE plans to publish an annual analysis of its work and contracts data each year in the November edition. **ce**

GLOBAL MARKETS FOR INTERNATIONAL EUROPEAN CONTRACTORS



GLOBAL REVENUES FOR INTERNATIONAL EUROPEAN CONTRACTORS



Africa could be an attractive and fairer market for European contractors if clients and the donor community drafted contracts better and put more effort into governance, argues EIC president Michel Démarre. CHRIS SLEIGHT reports.

African action



EIC president Michel Démarre.

“Corruption is bad for business – not only because of sanctions, but because it doesn’t make you progress or innovate or compete on a sound basis. It’s just insane.”

AFRICA IS FAR FROM THE MOST ATTRACTIVE construction market in the world. With a value of roughly US\$ 150 billion (€ 115 billion), it represents only about 3% of the global construction output, or only about half the size of one of Europe’s ‘Big 5’ markets – France, Germany, Italy, Spain or the UK. Add to this the problems contractors have faced over the years with corruption, late payments, a public sector that was poorly equipped to manage projects and all manner of political and economic risks, and it is easy to understand why developed world companies looked elsewhere for work.

According to European International Contractors (EIC), a trade association representing the interests of European contractors working outside their national boundaries, this was the attitude of many of the group’s members. However, there were those who felt it was worth addressing the problems contractors face in Africa.

“Many companies said, ‘Why care about Africa? – We pulled out of this continent 10 years ago because there was no regular business, we couldn’t get paid, and there were other issues we’re not happy about.’ But there are several contractors from areas including France, Italy, Portugal, the Netherlands, Belgium and the UK that are interested in tackling this issue,” said EIC president Michel Démarre.

According to data collected by EIC, between 2000 and 2007 the World Bank awarded just under US\$ 6 billion (€ 4,6 billion) of construction contracts in Africa. This represented 17,2% of the world total of US\$ 34,8 billion (€ 26,4 billion) for the period, making Africa the third largest recipient of World Bank infrastructure funding after the East Asia/Pacific and South Asia regions.

Besides this, EIC’s data on its members’ activities shows the African market has provided significant growth opportunities over the last five years or so (see p.12). The value of work carried out in Africa by European contractors totalled € 7,63 billion last year – a figure that has nearly doubled since 2003.

According to Mr Démarre, the World Bank initiated discussions in 2004 in a move the EIC welcomed. “The terms of reference that the World Bank drafted said some very interesting things – ‘We know there is corruption, we know that contractors and consultants work without being paid, we know there are problems related to contract procurement, but please help us to understand why it doesn’t work,’ they said.

“They got together contractors and consultants to analyse the issues.

Corruption was one thing, but so was the poor preparation of projects – the fact that it could take five or six years from the feasibility study to the start of the work. If it was something like a road rehabilitation project, the road would have gone on deteriorating for all that time, so when you came to do the work it bore no relation to what you thought it would be – even if the study was a good study five years ago,” he explained.

Although these issues have been aired, Mr Démarre says Africa’s problems are not being solved because so much World Bank work is being awarded to contractors from emerging markets, particularly China, that have poor environmental and social standards, and which ignore the development aspect of projects.

“We want better consideration of the added value provided by European contractors.” He said, “For example, European contractors working in Africa do not import staff, but employ people locally. Local workers are trained – up to managerial level. That’s completely different to the Chinese model where all the staff and materials are shipped in, and there is no relationship to the local economy.

“We don’t think that is satisfactory for anyone – either for African Governments or for donor organisations. I don’t like the prospect of money being poured into development funds, only for it to be transferred to Chinese contractors. I don’t see where the development for Africa is in that.”

There is also an issue of fair trade, as Mr Démarre explained, “Chinese contractors are allowed to bid on World Bank contracts on a par with European contractors, but with a different way of doing business. How can a contractor listed on a European stock market compete

with a Chinese contractor that is State or Provincially owned, with no clear financial statements, with no clear separation from the State or Province and with no real accounting standards?"

The fact that Chinese contractors are a dominant force in World Bank-funded schemes is incontrovertible. The EIC's data shows Chinese companies won US\$ 9,23 billion (€ 6,99 billion) of World Bank work between 2000 and 2007, 26,5% of the US\$ 34,8 billion (€ 26,4 billion) total.

The biggest slice of this – US\$ 7,61 billion (€ 5,77 billion) was in its own and neighbouring markets in East Asia and the Pacific. The next biggest slice was in Africa where it was awarded US\$ 1,24 billion (€ 940 million) worth – more than 20% of the total World Bank work in the continent, and more than double the amount won by any other country's contractors.

SOLUTION

The EIC is calling for social, ethical and environmental requirements to be incorporated into development bank contracts, something Mr Démarre says is sadly lacking at present.

"We'd love to see the World Bank and other donor organisations get into more details about what they want

in terms of an environmental and social performance of a contractor. But they don't do it, and they don't want to do it," he said.

CE asked the World Bank for details of the environmental and social standards it requires on the projects it funds, but it made no comment.

This issues ties into work EIC is doing on corruption, with the development of a paper on ethics, and this is one of the key issues Mr Démarre says drove many European contractors to abandon Africa.

"The problems start once the contract is signed. Things get held up at customs or there is a permit missing, and people tend to think, 'So what if it takes a little money to move our claim from the bottom of the pile to the top?'"

"Each one of these is a doorway to corruption, and it is very difficult to control from the head office of an international company. But there has been a lot of progress from contractors, and clients and donors could help us. They could help eliminate these loopholes that are doorways to corruption," he said.

Mr Démarre added, "Corruption is bad for business – not only because of sanctions, but because it doesn't make you progress or innovate or compete on a sound basis. It's just insane."

In fairness to the World Bank, it has taken the issue of corruption more seriously in the last ten years. In 1999 it put a mechanism in place for reporting bribes and malfeasance and has since 'named and shamed' 343 companies and individuals found guilty of corruption. Sanctions include debarring companies and individuals from bidding on World Bank projects.

But according to Mr Démarre, the same sort of measures that would make contracts better – specific and costed social, safety and environmental requirements – would also help to close-off avenues for petty corruption.

"They could eliminate the poor feasibility studies and ensure tender documents are as accurate as possible, so there are no discussions after the contract is awarded. They should try to make every item as specific as possible with a price in front of it.

"In contrast, if you look at tender documents today, they are completely empty, and we don't see any willingness from the World Bank and the donor community to be more specific. The only agreement that we've reached with the World Bank is that they will not accept forced labour or child labour. That's all! That's only two of the four core labour standards."

Again, the World Bank was unavailable for comment on whether it insisted on the International Labor Organization's (ILO's) four key standards – no forced labour, no child labour, freedom of association & the right to collective bargaining and freedom from discrimination.

IMPROVEMENT?

With both the problem and the solution clearly stated, CE asked Mr Démarre if he was confident of bringing about a change. The answer was an abrupt "No."

Explaining his answer he said, "I think the developing world members of the World Bank think this is just a way for the European contractors to monopolise the market. But if it is written, and it was the same for everyone, I don't see what the problem is, but it seems that anything that brings an ethical western approach is fought against. The result is that no-one is really prepared to improve the situation."

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"We'd love to see the World Bank and other donor organisations get into more details about what they want in terms of an environmental and social performance from a contractor. But they don't do it, and they don't want to do it."



The Lesotho Highlands Water Project was one of the most notorious schemes in Africa in recent years as far as corruption is concerned.