

Capital Goods and Project Business – Sector Reports

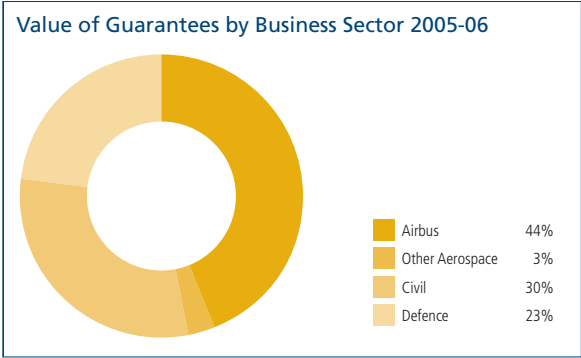
Aerospace

Airbus S.A.S. is the mainstay of Britain’s civil aerospace industry and 2006-07 is expected to see the launch of the flagship A380, the world’s largest passenger aircraft. Strong progress was made across the sector and ECGD supported an innovative financing deal for the sale of a spare Rolls-Royce aero engine.

Airbus

ECGD continues to play an active role in supporting Airbus S.A.S., the pan-European aircraft manufacturer, having supported 190 deliveries over the last three years. This year saw deliveries supported grow by almost 60 per cent. The Department supported 86 Airbus deliveries, providing guarantees worth £1.0 billion. First time purchasers were from Azerbaijan, Czech Republic, Korea, Malaysia and the Philippines, as well as previous customers from Austria, Chile, China, El Salvador, Morocco, the Netherlands, Qatar, Taiwan, Thailand, Turkey and the USA.

The three European Airbus ECAs – ECGD, Coface of France and Euler-Hermes of Germany – offer guarantees to support Airbus sales. The three ECA partners have made further progress in streamlining the way applications are processed, including the introduction of standardised financing documents, which are aimed at improving efficiency and reducing legal costs for airlines.



	2005-06	2004-05	2003-04	2002-03	2001-02
Airbus	44%	31%	17%	14%	21%
Other Aerospace	3%	1%	6%	1%	1%
Civil	30%	30%	38%	35%	47%
Defence	23%	38%	39%	50%	31%
	100%	100%	100%	100%	100%

Aero engines

Further sales of Boeing aircraft using Rolls-Royce engines were supported under the Co-operation Agreement between ECGD and the US Export-Import Bank. Guarantees of £33 million were issued to cover sales to Kenya Airways, El Al and Air New Zealand.

ECGD created a special finance package to support the sale of a stand-alone Rolls-Royce engine to El Al Israel Airlines. This was the first time ECGD had provided cover for a spare engine, separate from the rest of the aircraft.

Defence

The United Kingdom applies strict controls to defence equipment exports through a licensing system administered by the Department of Trade and Industry and also involving the Foreign and Commonwealth Office, the Department for International Development and the Ministry of Defence. ECGD support for export sales that are subject to an export licence is conditional upon that licence being obtained.

ECGD’s business levels in this sector were down again this year. Guarantees totalling £522 million were issued to support UK defence sales, representing some 23% of ECGD’s total business for the year and earning premium of £15 million. ECGD’s main support for defence involved the provision of services, such as manpower, training, aviation upgrades and repairs. There are prospects for higher business levels in the defence sector in 2006-07.

Civil Business

MAIN SECTORS OF CIVIL BUSINESS					
	2005-06	2004-05	2003-04	2002-03	2001-02
Power Generation & Transmission	22%	36%	19%	23%	25%
Telecommunications	18%	9%	2%	7%	5%
Petrochemicals	17%	2%	5%	2%	2%
Construction	14%	0%	8%	0%	0%
Manufacturing Process Plant & Equipment	10%	19%	8%	8%	10%
Energy	9%	15%	15%	13%	13%
Other	8%	10%	10%	10%	15%
Education & Medical	2%	2%	1%	1%	1%
Mining	0%	0%	5%	2%	2%
Water	0%	8%	27%	34%	27%
	100%	100%	100%	100%	100%

Oil, Gas and Petrochemicals

High oil prices are giving an added impetus to the undertaking of new projects in the hydrocarbons sector – in respect of the upstream, midstream and downstream sectors.

In the past year this has again been one of ECGD’s most active sectors. The Department aims to help UK companies benefit from the associated high levels of global ‘petro-dollar’ liquidity.

ECGD has also been seeing enquiries on a wider range of markets, for example Africa, the Middle East, South Asia and Latin America.

P52 Platform

Support for a US\$52 million loan was provided for the P52 platform off-shore of Brazil, one of the world’s largest floating oil platforms.

Four UK companies were involved:

- Rolls-Royce Power Engineering Plc, supplying power generating equipment from its Liverpool factory;
- InvSat Limited (now known as Nessco Ltd) of Aberdeenshire, providing a full telecommunications package;
- ETA Process, a division of Koch Chemical Technology Group Ltd, of Stoke-on-Trent, supplying vacuum deaeration equipment; and
- VWS Westgarth Ltd, of Glasgow, exporting sulphate reduction equipment.

The borrower for the P52 project is PB Netherlands BV, a subsidiary company of Petrobras, the Brazilian state-owned oil company. The P52 will be installed in the Roncador Oil Field, 125km off the southeast coast of Brazil.

ECGD worked closely with other ECAs, including the US Export-Import Bank, GIEK of Norway and SACE of Italy on the P52 project; scrutiny of environmental safeguards was a key focal point of this collaboration.

Petrochemicals

The Department supported two major contracts for SembCorp Simon-Carves Ltd in Iran:

- a €88.46 million portion of the €182million Low Density Polyethylene (LDPE) plant for the Amir Kabir Petrochemical Company; and

- a €88.5 million portion of the €147 million Polystyrene Plant for the Pars Petrochemical Company in respect of which Euler-Hermes of Germany reinsured ECGD for 22 per cent of the support.

SME support

We have continued to provide cover for Small and Medium Enterprises (SME) business. In Iran, this included a post-issue increase in Alderley Systems Ltd's existing Supplier Credit Finance Facility (SCF) support.

Sakhalin II

The Sakhalin II oil and gas development in Russia forms a major strand of activity for ECGD, which is considering support alongside the European Bank for Reconstruction and Development (EBRD), the Japan Bank for International Co-operation, the US Export-Import Bank and commercial banks.

As part of the environmental due diligence, ECGD officials participated in a number of visits to the island. ECGD's disclosure period, which ran until April 2006, gave an opportunity for stakeholders to comment on the project.

Due diligence continues on environmental, social, financial and commercial aspects of the project with the expectation of making a decision on ECGD support in 2006.

The year ahead

The higher level of business experienced in 2005-06 is likely to continue throughout 2006-07 and at the start of the year a number of projects were underway, from revenue-secured large to individual plant-construction and smaller SME supply and services contracts.

ECGD cover was put in place early in 2006-07 for a US\$25 million contract between SLP Engineering Ltd and the Mexican state-owned oil company Petroleos Mexicanos (Pemex) for two floating offshore accommodation platforms. Support for further projects with both Petrobras and Pemex is under active consideration.

Telecommunications

Telecoms business handled by ECGD saw the largest percentage growth of any single sector. Buyer Credit facilities totalling almost US\$200 million helped to secure mobile equipment exports for Motorola Ltd in Kazakhstan, Pakistan and Russia:

- ECGD agreed financing arrangements totalling US\$28 million for two contracts placed under a five-year frame agreement concluded by Motorola in Kazakhstan. The contracts, which are being sourced from Motorola's Swindon facility, cover the supply of GSM cellular phone infrastructure equipment and associated software to KaR-Tel, Kazakhstan's second largest mobile operator.
- In Russia, Buyer Credits totalling US\$118 million were arranged with Russia's leading GSM operator, Mobile TeleSystems.
- Pakistan Mobile Communications Ltd purchased mobile equipment with a Buyer Credit of US\$49 million. The financing arrangements, which became effective during 2005-06, were part of the biggest ECA-backed loan to Pakistan's private sector to date.

Transport

The level of interest has remained high during the year. Enquiries ranged from the more traditional markets of South and South East Asia to 'newer' markets, such as Eastern Europe, Venezuela and Iran.

Two UK companies are contributing to development of the transport links for Beijing's 2008 Olympics with ECGD support. Contracts totalling US\$22 million have been secured by Brecknell, Willis & Co Ltd and Westinghouse Rail Systems Ltd from Beijing Metro. The financing is expected to be in place by June 2006.

Construction

ECGD supported two major projects over the year – a water project in Iran and a contract for bridges and flyovers in the Philippines. There were a number of additional enquiries. In the renewable energy sector we continued to promote the Renewables Initiative, which aims to increase awareness in the industry.

Bridges

A £90 million contract to supply bridges and flyovers in the Philippines was the latest in a series of bridging projects awarded to Mabey & Johnson Ltd. With ECGD support, the company has now completed 1,400 bridges under the bridges and road programme started by President Ramos in 1996.

Water intake

Essex-based Brackett Green Ltd was awarded further work increasing the value of its contract to US\$5.6 million for the design, manufacturing and commissioning of mechanical screening equipment for the Mobin Water intake project in Iran.

Renewable energy

ECGD and DTI continue to take an active role in promoting the Renewables Initiative www.dti.gov.uk/energy/sources/renewables/index.html. This makes £50 million of ECGD cover available each year to support UK renewable energy exports and investments that meet ECGD's minimum risk standards.

ECGD provides advice on export finance and insurance issues to the cross-departmental Sustainable Energy Exports Committee and a range of trade advisory groups, which bring together government and industry representatives from three key sectors:

- power
- water
- airports

Metals, Mining and Process Plant

ECGD handled more enquiries over the year, partly reflecting the trend to upgrade steel plants around the world. Four guarantees were issued including £4 million of cover for two new steel projects in India. Again, there were no guarantees issued for the mining sector.

Insurance cover was provided in relation to contracts for steel and aluminium manufacturing equipment secured by VAI Industries (UK) Ltd with an aggregate value of more than £50 million in China, India and Taiwan. In addition, an ECGD guarantee became effective for VAI's project to refurbish a second hand plate mill owned by Erdemir of Turkey.

In the rest of these sectors there were 46 enquiries, up from 36 the previous year. These covered a range of countries including Algeria, Brazil, Ghana, India, Mexico, Philippines, Russia, Saudi Arabia, Turkey and Ukraine.

Overseas Investment Insurance

Overseas Investment Insurance (OII) provides political risk insurance for up to 15 years. The volume of demand for this cover has reduced year on year since the peak of 2001-02. The maximum liability in respect of OII stands at a total of £239 million at 31 March 2006 (£351 million in 2004-5). Demand for political risk insurance is changing significantly as traditional investors re-evaluate their exposures and as investors grow more confident in the 'new' European Union member countries.

