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Our Ref:
Your Ref:

Dear Sirs

Consultation on ECGD Support for Foreign Content

We refer to the "Consultation on ECGD support for Foreign Content" issued by the department and requesting responses from contractors to the questions posed in the document.

Simon Carves Ltd (SC) is a leading UK chemical engineering contractor specialising in particular in "downstream" petrochemical plants, and is one of the main contractors approved by Basell (German) and Exxon (USA) for the design of high pressure Low Density Polyethylene plants using their licenced technology. In the past two years Simon Carves has been awarded two contracts with subsidiaries of NPC of Iran which have been the subject of ECGD supported export finance. One is for Amir Kabir Petrochemical Company for a LDPE plant and the other with Pars Petrochemical company for a Polystyrene plant.

The answer to the first question " should ECGD change its attitude for supporting foreign content under credit contracts? " is in our experience a definite "yes".

The reasons for this is clearly shown in the two contracts referred to above. SC's scope of work in the contracts is to undertake the design, procurement, construction management and commissioning of the plants. This amounts to approximately 15% of the contract value. In the cases where the technology is non UK then the major part of the equipment is mandated by the technology licensor and comes from non UK suppliers. In the case of the LDPE plant some 42% is from German suppliers.

In the case of the Pars polystyrene plant with UK technology (BP/Ineos), some 32% of the total contract price was sourced from countries other than the UK.

The situation is compounded by the fact that the Iranians insist that some 51% of the contract is sourced from a local contractor and finance for the EU/foreign sourcing is requested.

These contracts are becoming so large, (in the region of more than US200m) that it is necessary for SC to form a contractual alliance with a local contractor to undertake the projects both to share the financial risk and because local laws require local participation eg Iran and Thailand. In the latter case the construction works will be approx 45% of the contract price.

Therefore in our opinion because of the high value of the equipment being sourced it may not even be possible for the UK contractor to achieve a 50% share of the contract sourcing and this would leave a shortfall of financing to be arranged by the client. It is difficult for ECGD to arrange co-insurance of the projects in many instances in these cases.

Certainly we would agree that there should not be a differentiation between EU and non EU sourced equipment. One of the major sources for high pressure compressors being in Switzerland. These are extremely expensive components and skew the values of the material vis a vis the engineering cost.

The answer to the third question is also affirmative. ECGD's records will show that in attempting to secure the support of SACE for the Pars polystyrene contract, SACE after prevaricating for months, finally decided not to support the equipment being sourced by SC from Italian suppliers. ECGD were not allowed to underwrite the shortfall as under the current rules they had reached their ceiling of EU and non EU goods.

The result is a shortfall in finance for the project. More flexibility would have resolved this situation, which almost resulted in a loss of a €147m contract.

We would support the proposals being made in paras 54.4 as those governing this flexibility. It is extremely difficult for contractors to adhere to those suppliers and countries of origin given at the time the application is made to ECGD. There are a number of constraints such as time, price and availability of alternative equipment which need to be considered by the contractor following the award of the contract to avoid being in breach of the main contract.

I have also been asked by Ian Corbidge to reply on behalf of the BCECA members. Whilst most of the members do not use ECGD as a means of supporting finance for their projects, they are in a similar position to SC, in that they do not manufacture equipment and act as EPC/PMC contractors. They would be similarly constrained by the current rules governing foreign content.

One of the hidden benefits of being able to have the finance arranged for the Iranian LDPE plant is that it has kept SC as one of the leader contractors for LDPE plants in the world.

We have secured the EPC contract for a 400,000 tpa plant which is being built at Teesside for Huntsman Petrochemicals. This will bring not only the engineering and supply work to the UK but also some £40m in terms of civil, mechanical and electrical subcontracts for UK contractors. SC are also one of only two contractors bidding for a similar plant to the Amir Kabir plant in Thailand which, if we are successful, will result in a further benefit to the UK economy of circa €30/40m. This contract will use the same technology as Amir Kabir and the design team having finished the Amir Kabir work will be able to continue almost seamlessly on to the new contract.

I apologise for the late submission of this letter but would be pleased to provide any further information, should you so wish.

Yours faithfully
for **Simon Carves Limited**

David A Johnston
Commercial Manager