PRACTICAL INFORMATION

JULY 2017

HERMES COVER SPECIAL

Constructional works cover

EXPORT CREDIT GUARANTEES OF THE
FEDERAL REPUBLIC OF GERMANY

Hermes Cover

► Constructional works cover

The execution of major construction works, such as roads, bridges or ports, is of crucial importance for the infrastructure of a country. German companies bidding for such projects may utilize state export credit guarantees to cover their export risks.

Construction transactions differ from other types of exports in certain aspects; thus, deliveries of goods to the country in question tend to be the exception, while the agreed (construction) services are for the most part provided locally. These special characteristics of construction transactions have prompted the Federal Government to offer special constructional works cover in its range of export credit insurance instruments. This form of cover is available for contracts **on cash terms**, while (construction) contracts on credit terms come within the scope of supplier credit cover. The unique characteristics of constructional works are reflected in the premium and the uninsured portion.

WHAT CONDITIONS MUST BE SATISFIED?

As a matter of principle, any German exporter may apply for constructional works cover. However, the provision of construction services must constitute the dominant element of the **construction project**. Thus, for example, the construction of a sewerage treatment plant may be covered even in the case of substantial deliveries of parts for the plant. In the event of any doubt, the responsible employees at Euler Hermes will be pleased to provide advice.

The terms of payment must provide for continuous payments (e.g. monthly, but no more than quarterly) on the basis of progress reports with a payment period of a maximum of 90 days. This does not preclude the agreement of a retention of no more than 10% of the value of the contract, which, for example, is due for payment upon the completion of the construction contract or preliminary acceptance of the services provided.

WHAT IS INCLUDED IN CONSTRUCTIONAL WORKS COVER?

The **amounts owing** to the German exporter for the goods and services provided in accordance with the applicable contract are covered against the typical export risks (see product information brochure **Supplier credit cover** and the **General Terms and Conditions for Supplier Credit Guarantees** (G)). As well as this, surcharges and receivables due for supplementary services can also be included:

- The amount of the surcharges can either be fixed in advance or a framework determined, which may equal up to 10% of the value of the contract and may be utilized.

- Receivables due for supplementary services refer to claims arising at a later date for additional services not coming within the value of the contract. They can be included in the cover up to a maximum of 30% of the value of the contract.

In addition, the **contract bonds** to be provided by the exporter, e.g. performance bonds, warranty bonds etc. may be included in constructional works cover. Only a bid bond, which may have to be provided in advance, must be insured separately under contract bond cover.

Other risks typical of constructional works relate to the construction equipment used, for which the exporter can take out cover against political risks, e.g. confiscation by public authorities or destruction as a result of acts of war. However, risks which can normally be insured outside Hermes Cover, e.g. the risk of theft, are not covered.

Under the terms of an export credit guarantee, cover for construction equipment is governed by the General Terms and Conditions (G). The maximum amount for which cover is sought should equal the sum total of the initial value of all items of equipment which at most are located at the construction site during the construction period at the same time. All additions to and, where applicable, withdrawals from the equipment at the construction site must be documented including details of their initial and withdrawal values (e.g. by means of lists of equipment). In the event of a covered risk occurring, the claim is paid on the basis of the current fair value of the equipment. The fair value is compared with the sum total of the initial value of all equipment located at the construction site on the date on which the covered risk occurs. If it does not exceed the maximum amount covered, this amount forms the basis for calculating the amount of indemnification. Otherwise, a shortfall arises which is deducted proportionately from any indemnification which may be paid (see model calculation: indemnification basis on page 5).

The value of new equipment is determined by reference to its acquisition price. In the case of used equipment, various methods are utilized to determine the value (e.g. list of construction equipment). However, the acquisition price is applied as the maximum basis for calculating the value. Third-party services, such as transportation, may be included in the value of the equipment. A flat-rate depreciation charge of 1.5% per month as of the date of dispatch is deducted to calculate the value of the equipment.

The Federal Government's liability for construction equipment commences on the date on which the equipment is dispatched to the construction site and expires no later than upon return of the equipment.

HOW IS THE PREMIUM CALCULATED?

A flat-rate premium based on the premium rates for short-term supplier credit cover is charged on the entire construction works receivable to be covered (including any prepayments). The country and buyer categories (see information brochure Fees and premium rates) are used as a basis. Regardless of the credit period, a risk horizon of O months is always assumed. Cover also includes risks in connection with the contract bonds which must be provided (with the exception of bid bonds) and the construction equipment. If the cumulative value of the bonds and construction equipment exceeds the receivables from the construction works to be covered, the flat-rate premium is calculated on the basis of the higher amount (see model calculation: premiums on page 5).

In the case of any supplementary receivables, the Federal Government charges an advance premium of 5% on the amount for which cover is being sought. This amount is netted on a proportionate basis upon utilization and is otherwise not refundable.

HOW HIGH IS THE UNINSURED PORTION?

The applicant can choose between the usual differing uninsured portions or a uniform uninsured portion.

Uninsured portions of 5% for political and 15% for commercial risks are customary for amounts owing and 5% for contract bonds and construction equipment. The uniform uninsured portion of amounts owing, contract bonds and construction equipment stands at 10%.

WHAT OTHER ASPECTS OF A CONSTRUCTION PROJECT CAN ALSO BE COVERED?

During the execution of a project, it may become necessary for the exporter to transfer its own working capital to the corresponding country for work to be commenced at the construction site. Cover is also available for the conversion and transfer risk arising during repatriation of such working capital.

In addition, it is also possible to cover risks in connection with site erection costs, site stockpiling, spare parts stockpiling and construction equipment storage, if the construction equipment is to temporarily remain at the construction site after the completion of the work. Global construction equipment cover is also available for equipment which is to be used at several different sites in an individual country.

Like construction equipment cover, spare parts stockpiling cover comes within the scope of the General Terms and Conditions (G). However, a flat-rate arrangement applies here. In the event of a claim, only the value of the spare parts located at the construction site as of that date is calculated. This amount then forms the basis for calculating the indemnification (a possible shortfall is not taken into account).

Site erection cost cover includes, for example, the cost of setting up and preparing the construction site, while stockpiling cost cover entails the cost of obtaining construction materials and components, among other things. Both types of cover are provided in accordance with the General Terms and Conditions for Manufacturing Risk Guarantees (FG). This means that a claim is paid in accordance with the principles underlying manufacturing risk cover and the corresponding prime costs.

With these types of cover the Federal Government's liability commences upon the initial expenses being incurred or upon the arrival of the inventories at the construction site. Site cost cover expires upon the completion of construction; in this connection, the value is automatically reduced by an average monthly amount calculated on the basis of the entire construction period. Stockpiling cover expires upon the consumption of the inventories in question.

The premiums for these additional types of cover as well as for any additional manufacturing risk cover are calculated separately on the basis of the standard rates. The uninsured portion is a uniform 5% for these types of cover.

Stefan Peters

MODEL CALCULATION: INDEMNIFICATION BASIS

Maximum amount covered:	EUR 10 million
Cumulative initial value of all equipment located at the construction site on the date of the loss:	EUR 20 million
Shortfall:	50%
Fair value of all equipment as of the date of the loss:	EUR 5 million
Basis for calculating indemnification (50% of EUR 5 million):	EUR 2.5 million

MODEL CALCULATION: PREMIUMS

Case 1:	Country risk category:	3
	Buyer category:	4
	Value of contract:	EUR 100 million
	Bonds:	EUR 30 million
	Equipment:	EUR 30 million
	Premium (0.91% of EUR 100 million):	EUR 0.9 million
Case 2:	Country risk category:	3
	Buyer category:	4
	Value of contract:	EUR 100 million
	Bonds:	EUR 60 million
	Equipment:	EUR 50 million
	Premium (0.91% of EUR 110 million [sum total of bonds + equipment]):	EUR 1 million

www.exportkreditgarantien.de/en

Export Credit Guarantees and Untied Loan Guarantees: instruments to promote foreign trade and investment provided by the

Federal Ministry for Economic Affairs and Climate Action

Commissioned to implement the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees:

EULER HERMES

Cover from the Federal Republic of Germany for foreign business

Export Credit Guarantees and Untied Loan Guarantees have been established and effective foreign trade promotion instruments of the Federal Government for decades. Export Credit Guarantees (so-called Hermes Cover) protect German exporters and banks financing exports against political and commercial risks. Untied Loan Guarantees are to support raw material projects abroad regarded as eligible for promotion by the Federal Government. Both promotion instruments play an important role in fostering economic growth as well as in protecting and creating jobs. Federal Government commissioned Euler Hermes Aktiengesellschaft to manage the federal funding instruments Export Credit Guarantees and Untied Loan Guarantees.

Information on other foreign trade promotion instruments of the Federal Government can be found at www.bmwk.de/en under the heading Promotion of Foreign Trade and Investment.

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