

International

Domestic contractors carry out most construction work, but according to new data from the EIC, cross-border work by European companies has been on the rise, particularly in emerging markets. **Chris Sleight** reports.

Construction tends to be a local industry, even when it comes to major projects. Although there are plenty of major contractors in the world – *iC*'s league table of the 200 largest is published each year in the July-August edition for example – there are several million construction companies active around the world, and most of them are small and medium sized enterprises (SMEs).

This makes for localisation, with most work in any given country being carried out by contractors that are based and owned locally.

However cross-border work has been on the rise for the last five years, with growth far outstripping the rise in overall construction activity.

Data from European International Contractors (EIC), a trade association that represents European construction companies working outside their national home markets, illustrates this trend. In 2007 its members generated revenues of € 121 billion (US\$ 160 billion) from work outside their home markets, up +14.7% on the previous year.

This is still a small proportion of the market. With global construction output around US\$ 4.6 trillion last year, this volume of international work equates to about 3.5% of the total.

But growth in international work has been much steeper than the overall markets during the recent boom. According to Global Insight, construction output around the world grew at between about +4.0% and +6.0% per year from 2004 to 2007. In contrast the EIC's data shows annual growth in international work anywhere between +7% and +23% per year in the same period.

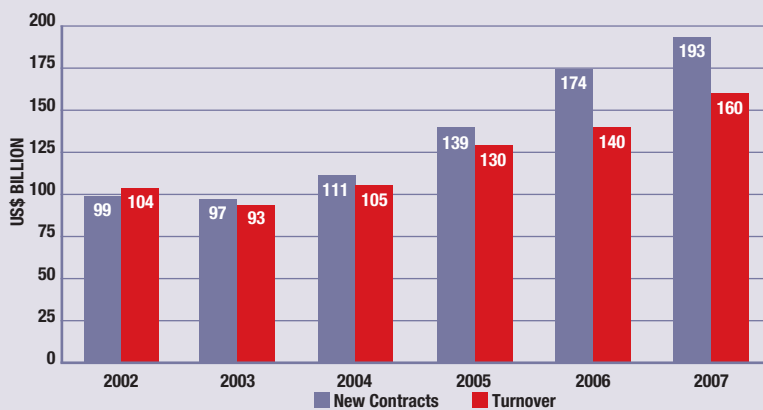
Global markets

As one might imagine, foreign markets in Europe are the most important for international contractors in the region. Last year they had revenues of € 64.6 billion (US\$ 85.3 billion) in Europe, 53.3% of their total turnover.

The next most important region was North America, where some € 18.8 billion (US\$ 24.8 billion) 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 total stood at € 20.7 billion (US\$ 27.3 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 the total. The value of that work was € 20.3 billion (US\$ 26.8 billion) – not a huge change from today. But in the intervening

International construction by European contractors



Who's working?

French and German contractors are the most internationally active

There is no clear dominant European force in international contracting. At € 24.3 billion (US\$ 32.1 billion) worth of work done last year, French contractors claimed the biggest slice of the pie, which equated to just over 20% of the total.

Germany was a close second, with its contractors carrying out € 22.5 billion (US\$ 29.7 billion) worth of foreign work – 18.5% of the total. The next nearest national group was Sweden with its contractors performing € 14.3 billion (US\$ 18.9 billion) worth of work, 11.8% of the total. No other national group could claim a double digit share of the international market last year, although Austria was close at 9.5%.

The picture is similar when it comes to the value of new contracts won last year. German contractors led the way, landing € 27.8 billion (US\$ 36.7 billion) of work, 19% of the total, and French contractors won € 24.3 billion (US\$ 32.1 billion) of new work, 16.6% of the total.

Swedish and Austrian contractors also landed reasonable shares, as did Turkish contractors, which was something of a surprise.

Back in 2002 Turkey's contractors could only claim about a 2% share of the European construction fraternity's international workload. However, last year saw this national group carry out € 6.61 billion (US\$ 8.73 billion) of work and land an impressive € 14.2 billion (US\$ 18.7 billion) of new work – 9.7% of the European total.

European contractors' international growth



expansion

period, the significance of other markets - particularly the Middle East - has grown, expanding the international construction market and diminishing the relative importance of North America.

In 2003 the amount of work carried out by Europeans in the Middle East was negligible – just € 1.99 billion (US\$ 2.63 billion), only 2.8% of the total of € 70.5 billion (US\$ 93.1 billion) that year. However, sharp increases in 2005 and 2006 in particular saw that total shoot up to € 10.4 billion (US\$ 13.7 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 markets totalled € 15.2 billion (US\$ 20.1 billion), or 12.5% of the total last year. Africa has grown a little in recent years to € 7.63 billion (US\$ 10.0 billion), or 6.3% of the total last year. The smallest global market for European contractors last year was Latin America, with turnover totalling € 4.68 billion (US\$ 6.18 billion) or 3.9% of the total.

New contracts

New contracts won last year around the world by Europe's international contractors totalled € 146 billion (US\$ 193 billion) – a record high and a +6.0% increase on the 2006 level of € 137 billion (US\$ 174 billion).

New contracts standing ahead of turnover is a clear indication of growth, and from this point of view the last two years have been very healthy. As Chart 1 shows, 2006 and 2007 saw a big gap open up between the value of work carried out and the value of new work won. This means there should be plenty of work in the pipeline.

It may also have negative implications too, perhaps indicating that recent years have seen demand outstrip supply, which can cause labour shortages and inflation. It could also be indicative of delays in getting projects started, following the signing of contracts.

But the gap closed last year with growth in current activity catching up with new contract awards. In 2007 the rise of +14.7% in new work from the previous year was higher than the growth in new contracts (+10.8%), reducing the discrepancy.

In fact the growth in new orders last year showed a marked slowdown from 2005 and 2006, where it was running at about +25% annually. Although 2007's double digit-increase was still positive news, it could be indicative of a slowdown in international work for European contractors.

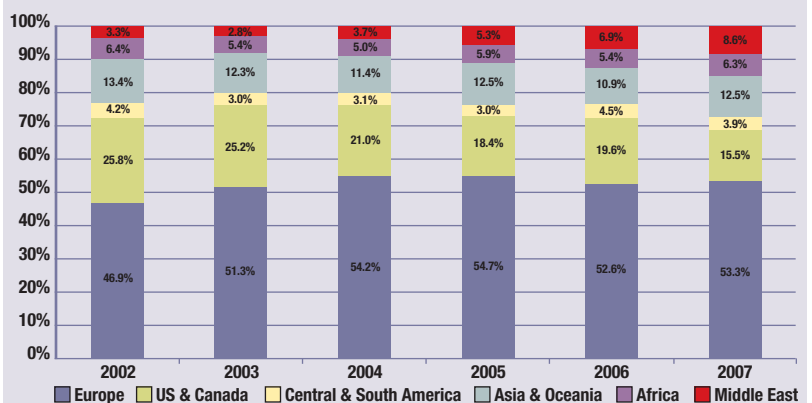
Regional strength

But as ever, the global picture hides some big regional variations and trends. While the value of work done and new contracts won in both North and South America fell last year, there were some areas of spectacular growth.

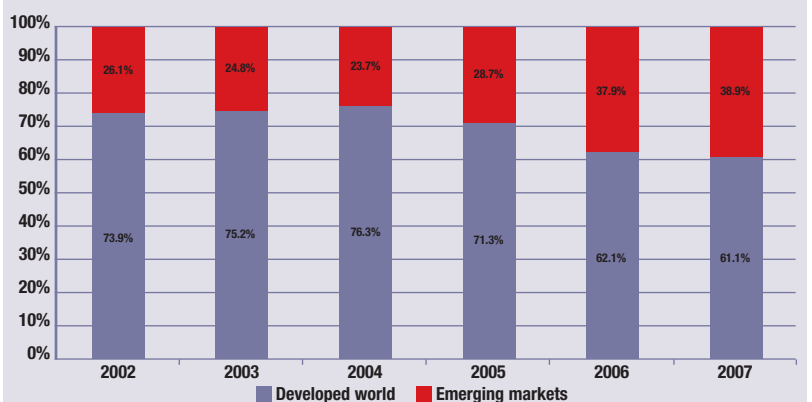
In Africa, a remarkable four years saw the value of new contracts awarded rise to € 14.3 billion (US\$ 18.9 billion), compared to just € 3.43 billion (US\$ 4.53 billion) in 2003. However, Africa is one region where the gap between incoming work and the industry's capacity is painfully obvious. At € 7.63 billion (US\$ 10.1 billion) worth of work done last year, the apparent capacity of the industry was just 51.5% of the value of new work won.

There is a similar, if less pronounced story in the Middle East,

Global revenues for international European contractors



New contracts awarded



where three years of sharp growth saw the order intake last year rise to € 14.7 billion (US\$ 19.4 billion), while the value of work done stood at € 10.4 billion (US\$ 13.7 billion). The growth has been spectacular – in 2003 just € 2.26 billion (US\$ 3.51 billion) of new work was won and € 1.99 billion (US\$ 2.63 billion) of construction carried out, so the market has increased four-fold in just three years.

As a result the proportion of work carried out in emerging markets (i.e. not Europe or North America) has risen from 23.5% in 2003 to 31.2% last year. This switch is even starker in the new contracts data, which shows that 38.9% of new international work won last year was in emerging markets, compared to just 23.7% at its lowest in 2004.

Next year?

What the current financial turmoil means for Europe's international contractors remains to be seen. With such a strong order backlog, it is likely that figures for 2008, due for publication in a year will show an increase in revenues. However, the intake of orders will be a crucial barometer for future activity levels.

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

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

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%.

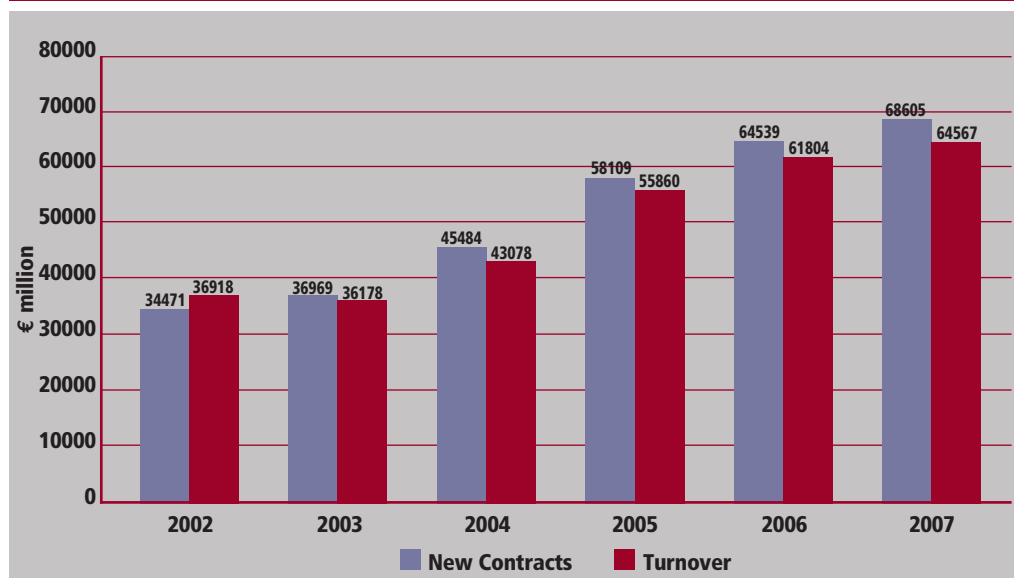
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In fact the relative importance of North America to the European construction fraternity has been on the slide for some time. Back in 2002 for example, the region accounted for more than 25% of international work carried out by Europeans. The total 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.

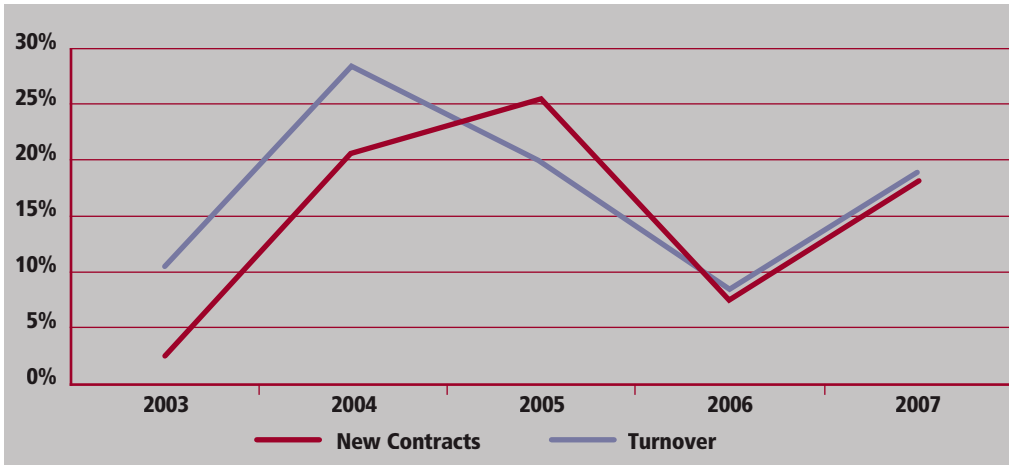
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CROSS-BORDER CONSTRUCTION WORK IN EUROPE BY EUROPEAN CONTRACTORS



GROWTH IN CROSS-BORDER ACTIVITY IN EUROPE



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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.

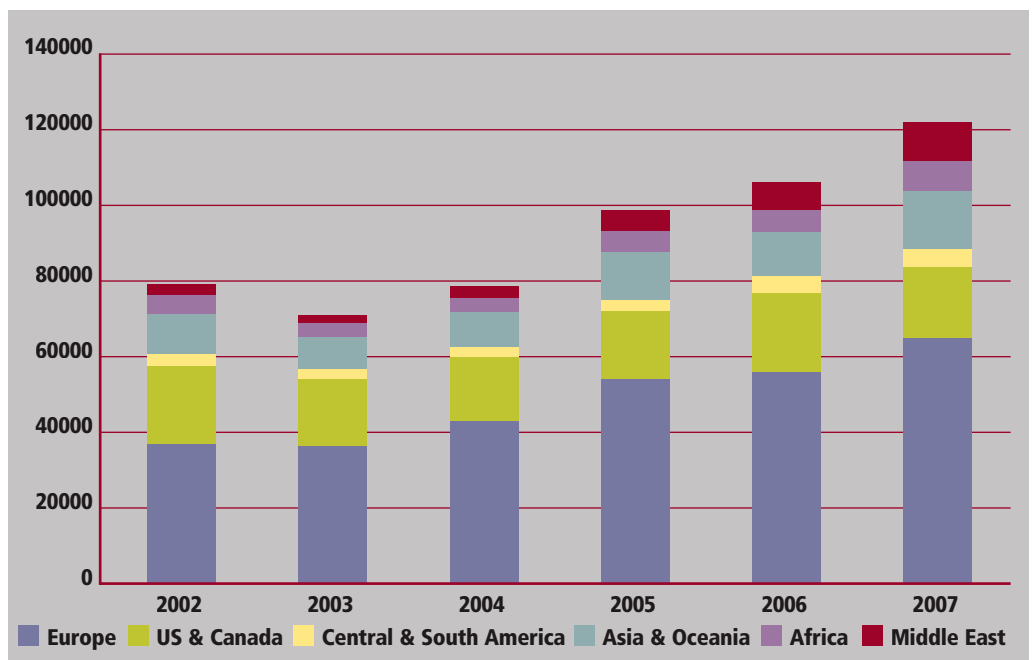
NEXT YEAR?

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

