

MEMORANDUM FOR CABINET BY THE HON. MINISTER OF
TRADE INDUSTRY AND AGRICULTURE

Distillers Nos. 5 and 6

Hon. Ministers are aware that the completion of the seawater distillation programme (six units of one million gallons a day each) is an urgent necessity and it is essential that the 5th and 6th distillers should be commissioned by the end of 1970. The urgency of having all six distillation units in commission at an early date to meet the immediate future demand resulting from the planned tourist and industrial development, from the expansion of our horticulture sector on an industrial scale and the growing rate of normal water demand has been underlined by the Joint Mission for Malta.

2. The Manager, Water Works Department, is seeking authority to brief the consultants, Messrs Preece, Cardew and Rider to take immediately in hand the preparation of all the necessary contract documents in time to advertise the tenders for Distillers Nos. 5 and 6 ~~by~~ not later than the 30th June, 1968, which is the revised date submitted for the Draft Action Timetable of the Steering Committee.

3. Following the award of the recent contract for three distillers, representations have been made to the Ministry of Trade, Industry and Agriculture by Westinghouse Electric International Company expressing their regret over the fact that they lost the tender for the water desalting plant extension and proposing that negotiations be taken up with them direct in respect of the next expansion of the water facilities.

4. According to the Company's proposal, Government should convey by Letter its intent to purchase from Westinghouse two distillers subject to the following conditions:-

(i) It shall be the Company's responsibility to obtain the required financing with best possible loan condition, such condition to be mutually acceptable;

(ii) It shall also be the Company's responsibility to prepare a proposal for the two desalting plants that will be integrated into our present power and water plant. The characteristics of these plants will suit the technical requirements of the Government and each unit shall be rated at a minimum of 1,000,000 IGPD.

(iii) The Company shall also bind itself to design the water desalting plant to meet condition (ii) above.

(iv) The price of the water desalting plants shall be subject to negotiation between the Government of Malta and Westinghouse Electric International Company.

5. The Company further propose that this negotiation shall not be subject to international tender and that, during the validity period, lasting six months, of Government's letter of intent, Government will not be charged any fees in connection with the preparation of the design of the desalting plant and for the proposal for the integration of the two plants into our present power and water plants (cfr. conditions (ii) and (iii) in para 4 above).

6. The above arrangements shall be governed by a contract between the Government and the Company, the completion date of the water desalting plants to be specified in the contract.

7. The estimated capital cost of the two distillers amounts to £1,265,000. In November, 1967 the Ministry of Trade, Industry and Agriculture requested that the necessary funds be provided for these distillers. Although so far, no confirmation has been received that the funds required will be provided there is no reason to believe that the grant monies will not be available as this project qualifies for grant assistance. If a call for tenders is made according to the normal procedure, it is expected that the time taken to have such distillers commissioned may extend to 2½ or 3 years.

8. Considering that the recent tenders for three distillers are still fresh enough to provide a basis for negotiation with one producer, say Westinghouse mentioned above, and that the only major change which has occurred since is the devaluation of sterling, a known factor which could easily be taken into account, it is for consideration whether, in the case of Distillers Nos. 5 and 6, Government would not be justified in negotiating with the Westinghouse Company direct on the basis of their proposal outlined above. The possibility of obtaining finance on long term credit under conditions favourable to Government, and of better terms in respect of the price of the plants to be purchased by

Government, are two advantageous factors which cannot be discounted lightly, should grant finance not be available.

9. There are, however, other considerations which have to be taken into account. First and foremost is the fact that as the project involves an expenditure of some £1.3m Government should have very strong and cogent reasons for departing from the established system of a public call for tenders. Grant monies are subject to the provisions of the Financial Agreement and particularly to the waiver clause; it need not be emphasized that the British Authorities would not consider granting such a waiver unless there has been a call for tenders and the granting of the tender to a non-British supplier is justified by reason of price, delivery etc. The third difficulty that the Ministry of Trade, Industry and Agriculture anticipates is the fact that the Westinghouse plant has to be integrated with existing plants and this might lead to technical problems and even to higher operating costs.

10. The Ministry of Trade, Industry and Agriculture considers, however, that if it is established that grant finance from British sources would not be available for these two distillers, the Westinghouse proposal for the issue of a letter of intent should be accepted, provided it is made explicitly clear that Government would not be prepared to dispense with a call for tenders unless the terms to be offered could be classified as 'soft finance', i.e. an interest free payment system or at least low rated credit terms.

16th January, 1968

MTIA/999/67

VIEWS OF ECONOMIC PLANNING DIVISION
ON MEMORANDUM NO. 954

No matter how one looks at the request made by Messrs. Westinghouse, one cannot escape the conclusion that it is not advisable to accept it, independently of the source of finance for the purchase and installation of Distiller Nos. 5 and 6.

2. In all probability funds for the purchase and installation of the fifth and sixth distiller would be forthcoming from Listed Grants in terms of the Financial Agreement. The first distiller was financed in this manner and funds are also available for the purchase of Nos. 2 and 3. We have now written to the Ministry of Overseas Development informing them of the placing of the order for No. 4 distiller along with that for Nos. 2 and 3 and are awaiting their formal approval regarding the provision of additional funds. The later Vote has been accepted as listed in the context of the Financial Agreement and there is no reason to doubt that the U.K. Government would never agree to grant a waiver in favour of Westinghouse unless the latter first participate in international tendering and offer the most favourable all-round terms.

3. Even if one were to assume, for the sake of argument, that British Funds would not be made available for Distiller Nos. 5 and 6 it would still be difficult to justify approval of the request made by Westinghouse even if the soft term credit facilities prove to be tempting. When Westinghouse participated in the recent call for tenders, their prices, before devaluation, were basically £232,000 (or 21.4 per cent approx.) higher than those of Messrs. Weir Westgarth who won the contract and would now be 24.4% higher. Without resorting to a call for tenders one can never be too sure that the latest and most competitive units are being purchased and it would moreover be difficult to establish with certainty that the interest seemingly being lost to the supplier through soft terms is not being recovered in part or in full in an inflated contract price.

4. To go one step further it must be mentioned that expert thinking on the subject of the desalination process indicates that this is practically a new field and is still in the early stages of commercial development. With further development and the resulting increase in the manufacture of distillers prices are bound to decrease. The clear lead in the manufacture of distillation units is still very open and one can reasonably expect further progress in this field in the very near future. In the circumstances it would seem advisable that rather than committing itself now, Government should only issue a call for international tenders when it is absolutely impossible to wait further.

5. Regarding our knowledge of Westinghouse I can only quote some excerpts from the Report on the Distiller Tenders (1027/PSS/65) submitted by Messrs. Fraunce, Gardew and Rider last October:

Para. 0.5

"Preliminary examination of the documents as received indicated that two tenderers, namely Westinghouse Electrical International Co. and Demag Gmbh had failed to complete the Schedule of Technical Particulars in accordance with clause 1 of the Instructions to Persons Tendering. Also their offers were accompanied by schedules of interpretations and modifications to the general conditions of exceptional number".

Para. 2.5

"The comments and clarifications by Westinghouse have been studied carefully, and, if these are written into a Contract Document they would largely eliminate the protection afforded to the purchaser in the existing document. Specifically Westinghouse would not accept:-

- (a) The right of the purchaser to reject unsatisfactory plant....." (The Consultants list ten other conditions which Westinghouse would not accept, some of which are equally serious).

"The amendments proposed by Westinghouse would therefore be most detrimental to the interest of the Board (M.E.B.) who would be forced to accept the equipment as supplied with little chance of redress and without the full assistance of the Engineer to certify or approve the standard of the plant".

6. In conclusion it must be pointed out that Westinghouse cannot claim to have a clear lead over the other manufacturers either in quality or in price. In fact, Messrs. Fraunce, Gardew and Rider had commented that "..... there is evidence that expertise or any real significance lies with Weir Westgarth and B.A.C., the first named organisation having installed more capacity than any other distiller manufacturer". It would therefore appear that Government has nothing at all to gain from the issue of a Letter of Intent to this firm.