

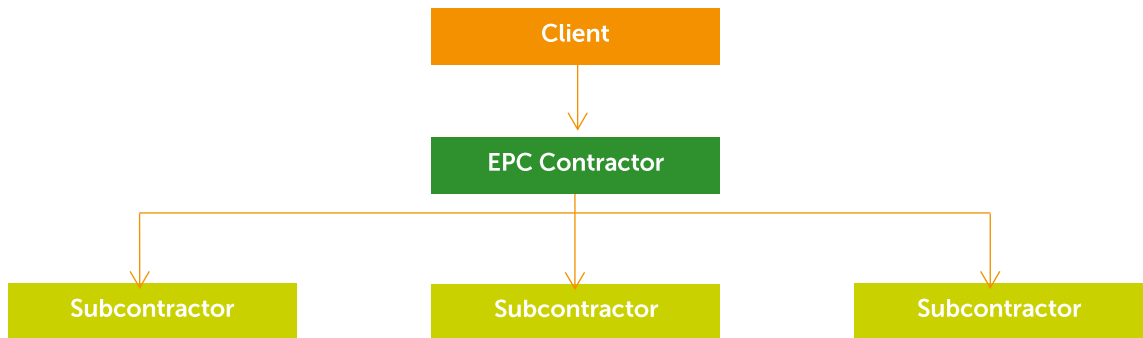
What's in a name? Introduction to EPCM

The key distinctions between EPCM and EPC

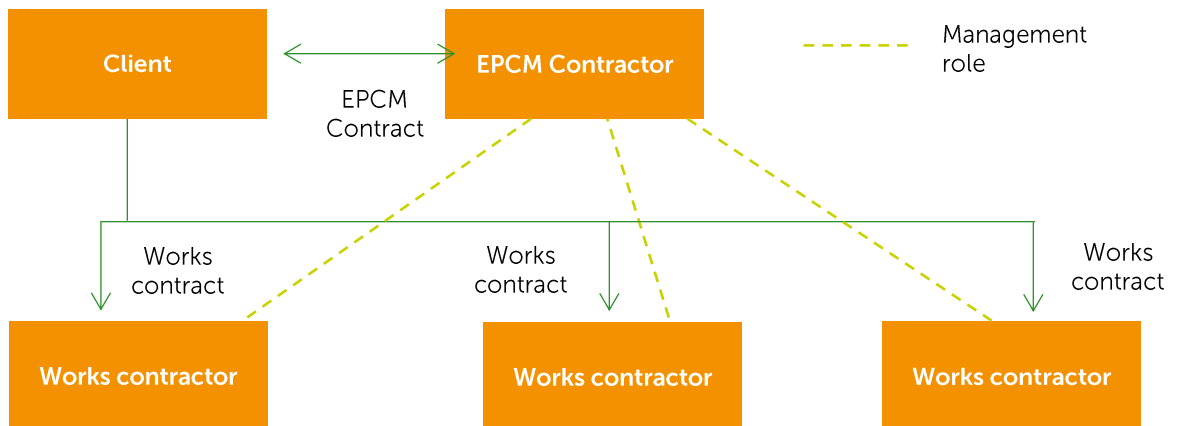
The similarity in name between EPC and EPCM can lead to confusion. As this article sets out, they are two very different forms of contract, in particular regarding the roles and risk profiles of those involved. It is therefore important to be aware of these distinctions.

Differences in structure

A **EPC contract** (which stands for engineer, procure and construct) is a fixed price, lump sum, turn key contract. All responsibility rests with the Contractor, which provides certainty over time and cost and therefore has historically been favoured by funders and purchasers. The FIDIC Silver Book is an example of this type of contract.



A **EPCM contract** (which stands for engineer, procure and construction management) is a professional services contract. The contractor does not undertake the building or construction, but instead develops the design and manages the construction process on the purchaser's behalf.



Due to these differences in structure, the role of the parties and the way in which liabilities flow is fundamentally different under an EPCM contract and EPC contract. These aspects are further explored below.

The role of the contractor

This table sets out how the role of the EPC contractor and EPCM contractor differs according to key themes:

	EPC contractor	EPCM contractor
Type of work/service	Design and construction project ("Engineer, procure and construct")	Professional services contract ("Engineer procure, construct and manage")
Responsibility	Develops project from commencement to final completion. Expected to build and deliver the project within a specified time on a "turn-key" basis. Takes full responsibility for the project	Responsible to ensure the engineering and design of the project in compliance with the projects technical and functional specification. Responsibility for supervising, management, and co-ordination of the construction interface in accordance with a detailed schedule. Provides design and construction advice, but does not build the project itself.
Design role	Receives a detailed design, including technical and functional specifications from the client. Scope clearly defined.	Responsible for the detailed design and overall management of the project on behalf of the client.
Pricing	Fixed price or lump sum contract. Cost shortfalls sit with the EPC contractor	Cost-reimbursable either with an upfront sum of money, with additional fixed monthly payments or with further payments to be made on completion of specified phases within the construction process.
Contracting	Enters into separate agreements with the contractors, vendors, sub-contractors, sub-vendors etc.	The client directly employs the construction contractors (trade contractors), who are managed by the EPCM contractor. Responsible for establishing contractual arrangements on behalf of the client with the other contractors, sub-contractors etc through a tender process.
Dispute resolution	Resolves disputes with sub-contractors	Client is bound into various contractual relationships in the event of a dispute.

Comparison of features

This table sets out some differences between

	EPC	EPCM
Certainty	<p>Cost certainty - shifts risk away from the client, towards the EPC contractor giving the employer greater cost certainty. Contractor only able to increase the price in very limited circumstances.</p>	<p>Cost variable – costs move according to the market, but in times of price volatility this can reflect actual price, rather than</p>
Price	<p>Expensive – as the EPC contractor takes all the risk they tend to price high to include greater possibilities.</p>	<p>Lower costs – potential costs savings as the contract is costed on the basis of actual risk incurred rather than estimated risk. The client has the benefit of negotiating each work package rather than agreeing a fixed overall price with the EPC contractor.</p>
Variations	<p>Inflexibility – variations in EPC contracts can lead to large increases in costs</p>	<p>Flexibility – EPCM contractor can negotiate directly with contractors and suppliers.</p>
Quality	<p>Restrictions on quality – because with there being a fixed price on EPC contracts it is in the EPC contract's interest to meet the specification at a minimum cost to maximise their own profit.</p>	<p>Control on quality – may offer a higher quality EPCM contracting allows the client a more active role and grants them more control over quality.</p>
Timing	<p>Delay – the design is usually developed before the contractor is appointed, so this can create delay.</p>	<p>Speed - the client may be able to complete the project more quickly. Allows the client to engage the necessary contractors to begin work, without necessarily finalising the detail of the project right away or by entering into contracts for works or equipment that will be needed later.</p>
Funding	<p>Pre-agreement needed – EPC contracting requires the client to have all of its funding arrangements at the outset, in order to secure a letter of credit in favour of the EPC contractor.</p>	<p>No pre-agreement required – client does not necessarily need to have all funding in place before works begin, unlike EPC</p>
Responsibility	<p>Single point of responsibility – the client can pursue the EPC contractor directly in the event of any defect or other problem and has no confusion over who else could be responsible.</p>	<p>Diverse sources of responsibility – in the event of a defect in construction the client may have to pursue several different contractors and suppliers to recover its losses.</p>
End result	<p>Turnkey nature – on completion the client is able to "turn the key" and operate the finished facility. This is attractive to an employer with little experience or inadequate resources in running a construction project.</p>	<p>Packaged works – the works are packed up with different works contractors who each take responsibility for their allocation which means the client has to work out who to pursue and then pursue each separately as appropriate.</p>

Awareness of key differences

It is especially important to be aware of the key features of EPCM projects and not to slip into established assumptions, based on more traditional or well-known structures, such as EPC. As demonstrated, these differences are fundamental and so careful attention should be paid on how this affects the risk profile and roles of the parties.

These comparisons are useful to bear in mind when considering which form of procurement to use, which we consider in our next article, [When would you select EPCM?](#)

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