ABSTRACT

This article is the second in a two-part series on the provisions of European Union (EU) law with regard to public procurement in the case of complex contracts. In the first part (see *Terra et Aqua*, #129, December 2012), the premise was presented that rules in the EU are very much focussed on maintaining competition during the procurement cycle. The rules that have been outlined in the various directives imply a heavy administrative burden for the contracting authority and a lengthy procedure. Early contractor involvement has not been a priority consideration thus far.

A consultation process amongst stakeholders made it clear that the EU procurement provisions need to be further adapted to accommodate more complex contract forms, a better market access for small- and medium-sized companies, the possibility for electronic procurement and more consideration of social and environmental aspects.

NEW DEVELOPMENTS

Consultations on the public procurement policy have resulted in proposals to revise the current procedures (Refs 5 and 6). The proposals are still under legislative review, but the rules for public procurement will in all likelihood be largely accepted as presented. As for the newly proposed directive on concessions, important questions have been raised in the European Parliament and the outcome of the legislative process is not entirely clear.

The revised directive applies to works and services contracts, which include design and build (D&B) contracts as before. The procurement directive no longer covers “concessions”, as they are dealt with separately as is discussed below.

INTRODUCTION

In the European Union (EU) the rules for public procurement for complex contracts are focussed on maintaining competition during the procurement cycle. The rules that have been outlined in the various directives imply a heavy administrative burden for the contracting authority and a lengthy procedure. Early contractor involvement has not been a priority consideration thus far.

This is not necessarily suitable to accommodate expert advice in an early procurement stage. The article here addresses recent new developments in EU directives, including information gathered during a consultation process amongst stakeholders, and gives case studies which demonstrate how early contractor involvement (and lack of) can influence major infrastructure projects.
- if, because of specific circumstances related to the nature or the complexity of the works, or to the risks connected to the project, the contract cannot be awarded without prior negotiation.

The proposed criteria to use the negotiated procedure have been opened up as compared to the current procurement regime in Directive 2004/15. Please note that the restriction to particularly complex contracts has also been softened in line with the comments received during the consultation phase.

**COMPETITIVE PROCEDURE WITH NEGOTIATION**

The following steps summarise the proposed procedure:

1. After a call for competition for a works contract, any economic operators that believe themselves capable of meeting the criteria may submit a request to participate and shall submit the necessary information as requested in the call.
2. The contracting authority evaluates the information and invites those contractors that satisfy the requirements as specified. A minimum of three contractors is invited to submit tenders.
3. The negotiation seeks to improve the content of the offers in order to better correspond to the award criteria. However, the scope of the bid, the technical specifications that define the minimum requirements and the award criteria are not subject to negotiation and may not be changed in the course of the negotiations.
4. Equal treatment must be respected and confidential information as well as intellectual property rights must be respected.
5. During the negotiations the number of participants may be reduced successively on the basis of the bid’s technical and award criteria, with the understanding that at least two bidders are kept in the race until the final award decision.
6. After concluding the negotiations, the contracting authority issues a request to participants to submit best and final offers.

**COMPETITIVE DIALOGUE**

This procedure has not changed materially from the requirements in the current directive 2004/15, but is clarified somewhat. The steps are similar to the procedure with negotiation, with the difference that at the outset of the dialogue the technical, contractual or financial solution is not yet clear.

The competitive dialogue should start with at least three contractors and during the process this may be reduced to two, but only on the basis of objective criteria that were published beforehand. If the dialogue is started with more than three parties, successive reductions may occur to arrive at a minimum of two bidders. The final bids must be based on the agreements reached during the dialogue. No variants are allowed and the evaluation must be done on the basis of the most economically advantageous offer.

In summary, whilst this revised proposed directive provides more flexibility and some more options for early contractor involvement, its scope is still limited to contract forms covering works contracts or design and build contracts.

The process diagrams in Figures 1 and 2 summarise the two procedures.

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**Figure 1.** Left, competitive procedure with negotiation.

**Figure 2.** Right, competitive dialogue.
Apart from the procedural aspect, the most significant difference between these two methods is that under the negotiated procedure the authority defines some form of technical specification (without contractor input), whilst for the competitive dialogue the authority defines a set of criteria or requirements, usually in the form of a functional specification. The technical solution will be defined only in the course of the dialogue.

Even though the scope of the directive is formally limited to the works contracts and the design and build contracts, the two procedures are models for other types of complex contracts that need negotiation during the procurement process. These procedures are an acceptable manner of satisfying the requirements of the Treaty.

**CONCESSION CONTRACTS**

The most significant new development is a proposed directive to cover the other forms of complex contracts that are conveniently described as public-private partnership (PPP) contracts, operating on the basis of a concession (Ref 6). The proposal follows earlier guidance and consultation (Refs 2, 4). The scope applies to the majority of public-private partnership arrangements.

The proposal states in the Introduction that: *The absence of clear rules at Union level governing the award of concession contracts gives rise to legal uncertainty and to obstacles to the free provision of services and causes distortion of the internal market. (...) An adequate legal framework for the award of concessions would ensure a more effective and non-discriminatory access to the market to all Union economic operators and legal certainty, favouring public investments in infrastructure and strategic services to the citizen.*

The directive will cover concessions for works and for services. The definition of a works concession is: “a contract for pecuniary consideration concluded in writing between one or more operators and one or more contracting authorities and having as their object the execution of works, where the consideration for the works to be carried out consists either solely in the right to exploit the works that are the subject of the contract or in that right together with payment”.

With this rather complex definition, the Commission attempts to grasp the common denominator of all types of complex contracts for infrastructure construction and exploitation which include an element of financing and operating the works for a certain period, either as an economic operator or in close cooperation with a contracting authority. In the Commission’s view this proposed directive thus covers all forms of contractual PPPs, where the relationship between the authority and the economic operator is contractual at arm’s length.

Whether or not this definition indeed captures all forms of contractual PPPs remains to be seen in practice. Quite likely there are also complex contracts for works, covering elements of design, building and operating, that would not require a form of concession.

The aim of the directive on concessions is to reduce the legal uncertainty that follows from the fact that the principles of the Treaty have to be applied to awarding complex contracts, but the detailed steps to be followed were a matter of interpretation, if not confusion. The proposal leaves quite a bit of room for the detailed process, but follows nevertheless mainly the approach of the negotiated procedure above along the following lines:

1. Publication of a notice announcing the intent to award a works concession. The notice must contain a clear indication of the scope of the project envisaged. The notice should contain selection and award criteria that are clear and objective. Any economic operator may request the draft contract documents as developed by the contracting authority and express its interest.
2. The selection criteria may include aspects related to public standing of the private entity (legal records...), economic standing, financial capacity, professional capabilities and technical capacity.
3. The tender documents should contain a form of functional specification regarding the works to be built and also the elements governing the contractual relationship that defines the conditions for the concession. Interested parties can make a first assessment of their capability to meet the requirements and the management of the risks.
4. Interested parties submit a dossier that responds to the selection criteria.
5. The contracting authority makes the selection on the basis of objective criteria and retains, where possible, two or more parties for an indicative bid.
6. The authority will in most cases start a round of discussion, clarification and negotiation with each of the retained bidders.
7. If more than two tenders were retained, the number of possible partners may be reduced to two at this stage.
8. These remaining bidders are requested to submit their final offers.
9. The final step is the selection, on the basis of objective criteria, of one preferred partner to whom the works concession is awarded.

In cases where the technical or financial options for the project are not defined in detail, the procuring entity might also opt for a preliminary phase of exchanges with the bidders, similarly to the competitive dialogue. The position of institutional PPPs, where the authority and the economic operator(s) form a separate legal entity would appear not to fall within the scope of the proposed directive. The preliminaries for an institutional PPP are necessarily complex, because the authorities and the economic operators enter jointly into a business venture under which the responsibilities and risks are allocated to the...
Figure 3. The author’s interpretation of the coverage of construction and infrastructure works contracts under the new directives.

respective partners in line with their capabilities. This should normally take place before the design work has started and before accurate price information can be developed. The selection can thus not be done on the basis of the most economically advantageous bid. Specific rules are difficult to develop; each case is unique, but parties will have to respect the general principles of the Treaty as discussed in the referenced publication (Refs 1, 3).

AND WHAT ABOUT EARLY CONTRACTOR INVOLVEMENT?
The review of the European legislation on public procurement and public-private partnerships (PPPs) has made it clear that the principles of the Treaty give preference to broad competition and leave little room in the proposal stage for relationships with contractors that are closer than at arm’s length. The dominating concern in the various directives is that access to tenders should be transparent and that competition should be maintained throughout the bidding stage. The current public procurement directive 2004/18 does open the possibility for “competitive dialogues”, but only for “particularly complex contracts”.

Under this procedure the competition should be maintained to the final bidding between at least two contractors. In the revised procurement directive the competitive dialogue is opened up to all “complex contracts” where early input on possible technical solutions is necessary or desirable. Nonetheless, the idea that at least two contractors should be consulted in parallel during the competitive dialogue is maintained.

Over the last two decades, the marine offshore and dredging industry has evolved rapidly and technical options to solve complex problems (soil issues, environment, production capacity, special tools, holistic approaches...) in a cost-effective manner often exist. The contracting authority is most likely not familiar with the latest technology and consultants may not be familiar with the possible solutions either. For that reason it is in the interest of all parties that optimal solutions can and should be discussed between the contracting authority and the contractors prior to the phase of priced tenders. Under European competition and procurement law, the competitive dialogue is the instrument that offers the best compromise between the requirement of sustained competition and the need to discuss technical approaches.

As stated above, the case of an institutional PPP is even more complex, because selection of the preferred partner must take place on the basis of objective criteria, as the authority and the contractor plan to enter into a joint venture that will be responsible for the design, construction and operation of the works. Even though cost and design information are not available yet, the criteria of transparency and equal treatment must be respected.

The Table I summarises the present review and lists the three types of contracts and procedures that may accommodate early contractor involvement under European procurement rules.

TWO CASE STUDIES
Two cases are presented here to illustrate the potential of the Competitive Dialogue. The information presented here is based on publications in the press and the author has no access to further inside information.

Oosterweel connection (Antwerp)
A separate public entity – BAM, Beheermaatschappij Antwerpen Mobiel – was formed in the early decade to realize a series of infrastructure works around Antwerp and in the port. The most visible project is a new connection across the Scheldt River, in view of completing the circular road around Antwerp. The connection is named the “Oosterweel”. The procurement procedure was started in 2004, prior to the revision of the EU public procurement rules. In other words, BAM as the procurement authority could not yet use the competitive dialogue as a suitable procedure for this complex infrastructure and used conventional procedures.

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Figure 3. The author’s interpretation of the coverage of construction and infrastructure works contracts under the new directives.

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The decision had been made to prepare the tender documents with the help of consultants. The tender documents were fairly precise on what had to be done and how, but did not present a conceptual design. The documents had selected the “best” scheme to realise the connection, consisting of the combination of a bridge and a tunnel. For these connections a corridor was defined that had to be respected,
but otherwise the tenderers were free to provide a suitable design.

In a first round of prequalification at the end of 2004 six consortia indicated their interest. Of these six four were retained as qualified. The four consortia received detailed tender documents with technical specifications in September 2005. A “first offer” was requested by June 2006. The conceptual design had to be accompanied by a physical model. An example model was already provided by the contracting entity, BAM. The model showed a bridge in two layers (“double decked”), but the tender documents specified clearly that the tenderers were expected to be creative and that the boundary conditions were indicative only. Elsewhere in the tender documents, however, an obscure passage requires that the existing constraints for spatial planning should be respected. This could be interpreted to mean that a double-decker bridge might be the only way to meet the specifications.

One of the four candidates requested clarification from the authority on this point and received as an answer that indeed the double-decker bridge is what was expected. BAM only replied to the candidate that asked and did not provide this feedback immediately to the other three candidates. Only in February 2006 did BAM indicate to the other parties that a double-decker bridge was preferred; then in April it reversed this requirement.

In utter confusion only one of the bidders had assumed that a double-decker bridge was required, one had changed course months later and was therefore handicapped in the final costing, one stuck to a one-layer bridge, for aesthetic and cost reasons and the fourth came with a tunnel. After evaluation of the first round only the two bidders with a double-decker bridge were retained to submit the best and final offer.

This case illustrates the importance of transparency and equal treatment. The European Court of Justice has ruled on this in a famous case (European Court of Justice Case C-496/99 – Commission v. Succhi di Frutta SpA (2004)): “The principle of transparency ...implies that all the conditions and detailed rules of the award procedure must be drawn up in a clear, precise and unequivocal manner in the notice of contract documents so that, first, all reasonably informed tenderers exercising ordinary care can understand their exact significance and interpret them in the same way and, secondly, the contracting authority is able to ascertain whether the tenders submitted satisfy the criteria applying to the relevant contract.”

Obviously the tendering process was already in limbo by the end of October 2005 because the principle of equal treatment had not been respected and court procedures had already been initiated by at least one candidate. BAM nevertheless continued with the evaluation and had specified that one of the award criteria should be that the exceptional beauty of design might carry a supplementary cost of € 100 million (on a bid price of some € 2 billion) compared to the lowest bidder. This fairly subjective criterion had to be assessed by an independent committee of architects. The price difference between the lowest bidder and the most aesthetic design has been reported to be € 200 million or more.

The final outcome of the whole process is still not known, because the procedure came to a grinding halt for reasons of cost increase, procedural errors, political wrangling and pending court cases.

Obviously, this case is not an example of successful procurement and the question arises whether a competitive dialogue could have produced better results. The least one can say is that significant costs would have been avoided: For the preparation of a reference design and the preparation of the tender documents. At least € 100 million has been spent on consultancy.

In addition, each of the four consortia has invested some € 10 million in proposal costs. In a competitive dialogue the four bidders could have been guided as to the wishes of the authority and a process of orderly selection could have been initiated by continued dialogue.

This is not to say that this particular project would have had an easy ride, but some of the procedural errors would have been avoided. The competitive dialogue would also have provided a better assessment of the technical possibilities. The comparison between a bridge and a tunnel is influenced by prevailing soil conditions, by the permissible span length and by existing technical means. For a tunnel the comparison would be for example between a cut-and-cover technique or drilling. For the bridge the comparison between a single bridge and a double-deck bridge requires expert input, especially on the cost impact, expertise that cannot be provided by consultants. Surely, a competitive dialogue with early contractor involvement would have produced better results.

**Seine-Nord Canal (France)**

A new canal between Compiègne and the Scheldt basin in northern France will stretch over a distance of some 106 km. The planned

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Table I. When Is Early Contractor Involvement An Option?

<table>
<thead>
<tr>
<th>Type of Contract</th>
<th>Complex Contracts with Concessions (Contractual PPP)</th>
<th>Complex contracts without Concessions</th>
<th>Institutionalised PPP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Which rules apply?</strong></td>
<td>New Directive on concessions (2013/xxx)</td>
<td>Treaty principles*</td>
<td>Treaty principles*</td>
</tr>
<tr>
<td><strong>Which procedures are ok?</strong></td>
<td>“Negotiated procedure”</td>
<td>“Negotiated procedure”</td>
<td>“Competitive dialogue”</td>
</tr>
<tr>
<td><strong>Is ECI possible?</strong></td>
<td>Limited to negotiation stage</td>
<td>Yes</td>
<td>Yes; Private partner responsible for design</td>
</tr>
</tbody>
</table>

* See Ref 1.
WHY CONSIDER EARLY CONTRACTOR INVOLVEMENT?

The question should really be “Why not consider Early Contractor Involvement (ECI)?” Not utilising the ECI process is a missed opportunity to reach faster and more cost-effective solutions to complex infrastructure challenges. The two projects described below are examples of the positive potential of involving dredging contractors early on.

These projects are amongst several that will be discussed in depth at the upcoming FORUM ON EARLY CONTRACTOR INVOLVEMENT scheduled for 14-15 November 2013 at Hotel Istana, Kuala Lumpur, Malaysia. By examining these on-going projects, the ECI Forum aims to distribute existing knowledge and to stimulate new, creative ideas for achieving solutions for “Best for the Project”.

Expanding an existing operational airport
One project is the expansion plans for Brisbane Airport in Australia. As Paul Coughlan, Project Director for the new Parallel Runway for Brisbane Airport, explains, “This is a complicated and interesting project where an expansion of the existing airport facilities with a second runway presents enormous challenges. It resulted in early involvement with stakeholders and contractors to see what is achievable within the confines of an operating airport”.

Adaptable development in an uncertain environment
A second such project is Pluit City Land Development in Indonesia. Wouter de Hamer is the Indonesia Project Manager for Conceptual Design and Modelling Studies for Land Development Island F, which will cover 190 ha in Jakarta Bay. De Hamer remarks, “Pluit City Land Development Project is part of an ambitious land reclamation project in Jakarta Bay. The high-quality residential area will be situated on a new island which promises to bring much-needed commercial and living space to the overcrowded Indonesian capital. Central to its success is an appreciation of the environmental context. Issues of urban sprawl, climate change, land subsidence, and on-going plans to better protect Jakarta in the future all have a potential impact on the project. Using ECI, dredging contractors have been able to demonstrate their expertise and provide inputs for a workable design solution”.

The Forum: Partnering Creates Possibilities
The International Association of Dredging Companies (IADC) with the support of the Eastern Dredging Association (EADA, part of the World Organization of Dredging Associations that serves the Asia Pacific region) is organising this two-day forum with the theme, Partnering Creates Possibilities. The event will bring together...
top-level experts and advisors responsible for construction projects for an in-depth exchange of knowledge. Project owners, financiers, insurers, contractors, construction lawyers, regulators, government agencies or NGOs working in the maritime infrastructure construction industry cannot afford to miss this interactive, networking event.

Why is Early Contractor Involvement important?
Anyone involved in large infrastructure projects has come up against delays, postponements and risks. And the first question that arises is: How could this have been done differently? Why didn’t anyone see these problems coming? Early Contractor Involvement (ECI) can help identify risks and responsibilities, pinpoint obstacles to co-operation and suggest possible methods to eliminate or minimise differences. The projects mentioned above are just two of several presentations which will be elaborated and discussed during the Forum.

This Forum on Early Contractor Involvement in Kuala Lumpur is a follow-up to the outstanding meeting on the subject organised in London 2 years ago and guided by Marc Gramberger, managing director of Prospex, a consultancy group based in Brussels, specialised in co-operation for excellence. He and his team will once again introduce participants to the set of attitudes, skills and basic knowledge for making co-operation a success – beyond the “mediocrity” of a mere compromise.

Also joining the Forum is Dr Dean Kashiwagi, keynoter in London, who is a Professor at Arizona State University’s School of Sustainable Engineering and the Built Environment. He will be joined by Mr Gerlando Butera, an international construction law specialist located in Singapore, with extensive experience in dredging and reclamation works for the construction of new port facilities, offshore pipelines and beach replenishment and coastal defence works.

Registration fee is €995.- per person (this includes all tuition, proceedings and workshops but excludes travel costs and accommodation). Accommodation at the Hotel Istana can be arranged. Sponsorships of the ECI Forum are available and offer a valuable opportunity to make your company visible to professionals, stakeholders and key players.

For further information about attending and/or sponsoring the Forum please contact:
Mr. Jurgen Dhollander
- Email: dhollander@iadc-dredging.com
Tel. + 31 (0)70 352 33 34
Fax + 31 (0)70 351 26 54

Figure 2. Model of the proposed Pluit City Land Development in Jakarta Bay, Indonesia, under development by PT Muara Wisesa Samuadra, a subsidiary of Agung Podomoro Group.
Much can be and has been said about this procedure: The entire process stretches over a long period. This is typical for large infrastructure projects in Europe these days, because the basic planning, the environmental impact studies, public hearings and problems with financing take time to be resolved. The procedure chosen by VNF, the procurement authority, is a very prudent one. Even though the contract form chosen is a contractual public-private partnership (but not an institutional PPP), and does as such not fall under the terms of the directive, VNF has nevertheless chosen the route of a competitive dialogue with the two consortia that qualified prior to making a final choice. The dialogue covers topics such as the concept and realisation of locks, the approach to earth works and also the final planning and schedule. This is followed by the request to both bidders to submit the best and final offer. The final selection can thus be made on the basis of the most economically advantageous bid and life-cycle cost.

To summarise: Although a competitive dialogue was not formally required by the EU procurement directive, the authority has chosen the procedure as the surest way to respect the Treaty. The competitive dialogue provided the framework for discussions with the bidders and ensured that the final offer met the requirements in an optimal manner. The specific rules for public procurement in France may be more detailed and prescribe the competitive dialogue as the tool to use in such a case. Given the constraints and procedural pitfalls, the choice for a competitive dialogue seems to be a good decision.

A further observation must be made however: The scale and complexity of the procedures made it necessary that the environmental impact study be approved and the necessary permits obtained prior to starting the dialogue. The objective of the dialogue was to obtain input on the technical solutions for infrastructure works (locks, tunnels, aqueducts). So, even though the competitive dialogue was used, this is not the ultimate example of early contractor involvement. In a complete early contractor involvement process – the ideal context – contractor(s) are involved prior to preparing the environmental impact studies.

**CONCLUSIONS**

The updated EU procurement directive introduced in 2004 offers – for the conventional contract forms (construction of works, design and build, works concessions) – a method of procurement for “particularly complex projects”, namely the competitive dialogue. This procedure allows for structured interaction with candidates during the bidding process. This instrument offers a possibility to involve the contractor early on in the procurement process.

A revision of the 2004 directive proposes also an extended negotiation procedure that provides possibilities to optimise the bid during the tender stage, but does not favour early contractor involvement.

The scope of the current works directive is formally limited to the above specific contract forms, while complex projects tend to be based on other, more complex contract forms and/or various forms of public-private partnerships.

For these contract forms the rules of the existing directive are not directly applicable, but the principles of the Treaty apply.

In order to fill this gap in the legislation, the European Commission has recently proposed a new directive to cover most forms of concession contracts. Here as well the procurement procedure must respect the principles of the Treaty and follow similar steps as under the works contract. It is in all cases very important to maintain competition throughout the procedure.

The extended negotiation procedure and the competitive dialogue seem to be acceptable procedures to meet the requirements of the Treaty also in case of negotiations for complex contracts.

The competitive dialogue in particular presents a suitable solution for interaction with candidate bidders early on in the procedure (early contractor involvement). It is important to point out that the restriction to “particularly complex projects” is no longer relevant.

For complex contracts not covered by either of the directives, the contracting authority has the freedom to choose a suitable procedure, provided that it satisfies the principles of the Treaty.

Complexity and sharing of risk indeed necessitates early involvement of contractors. Such early involvement should result in an optimised project structure and balanced life-cycle costs.

**REFERENCES**

1) Recital 2 of the current Directive on Public Procurement states this as follows: “The award of contracts concluded in the Member States on behalf of the State, regional or local authorities and other bodies governed by public law entities is subject to the respect of the principles of the Treaty and in particular to the principle of freedom of movement of goods, the principle of freedom of establishment and the principle of freedom to provide services and to the principles deriving therefrom, such as the principle of equal treatment, the principle of non-discrimination, the principle of mutual recognition, the principle of proportionality and the principle of transparency.”


