

Agenda Item 6

Survey of Risks and Challenges Facing the E&C Industry – Feedback (November 2009)

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ALL

Agenda Item 6 - Survey of Challenges and Risks Facing the E&C Industry

- **Code of Conduct / Anti-Corruption Compliance Risk – Enhanced / Tighter Global Enforcement**
- **Geopolitical Risk Hot Spots, Piracy, Terrorism, Blockade, Location Risk**
- **Global Warming - Severe Localised Weather Issues**
- **Increased Size, Scope and Complexity of Projects putting demands on both Management and**
- **Competent, Experienced Project Resources / Skills – Obtain, Develop and Maintain**
- **Conversely, possible Lay-Off / Redundancy Issues**
- **Stimulus Work / Govt. Clients – Huge “Big Project” Skills Gap**

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- **Economic Recovery still affecting Clients ability to Finance / Win Approval for both New and Continued Work**
- **Then Concerns about Financial Stability / Defaults by Clients, Banks, Insurers, Vendors, Suppliers, J/V Partners and S/C's - & Getting Paid !**
- **Availability / High Cost of Financing and suitable Guarantees and Bonding / Increasing Complexity**
- **Buyers Market - Back to LSTK and non-negotiable T&C's away from more favourable terms / strategies**
- **Strong Korean (and Chinese) Competition particularly in M.E.**

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- **Postponement / Cancellation / Suspension / Terminations /Re-Phasing of Work – Adequacy of Contract Provisions**
- **Non-Alignment of Client JV Partners and Enforced Contractor JV's.**
- **Increasing Civil Design and Build in US / Inexperience of both Contractors and Clients**
- **Race to the Bottom on Pricing (Unsustainable Margins), Contract Conditions and Schedule to maintain Workload**
- **Procurement Risk on LSTK Work with 3 / 4 yr. Schedules**

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- **“Renegotiation” of agreed Contract T&C’s**
- **Increasing uncertainty of enforceability of Contractual and Liability**
- **Risk Profiles in latest ITB’s pushing major Risks to Contractor**
- **Shortened Bid and Execution Schedules**
- **Surviving S/C Performance incl. Quality and Safety**
- **Increased Requirement for Local Supplies to boost Economies**
- **Exposure to One Large Client or Country**
- **Volatility in Currency Exchange Rates - \$??**

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- **Increasing Environmental / Greening of the E&C Industry / Social Responsibility / Carbon Trading - Lost Fossil Opportunities – Delays & Cost**
- **Risks of Venturing with New Partners in Undeveloped Markets – Particularly in Africa**
- **Clients Frustrating / Delaying Dispute Resolution to force Lower Settlements**
- **Getting more Difficult to Define and Agree Changes – especially with Less Sophisticated clients**
- **Mixed Views about Workload from 2010 onwards**
- **Surprising degree of Optimism**

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- **There are clearly some opportunities :**
 - South American Markets – Brazil, Mexico, Venezuela**
 - Equipment and Materials Buy-Out**
 - Lower Project TIC / More Attractive Ventures**
 - Stimulus Packages providing Infrastructure, Power, Government, Social Responsibility opportunities**
 - US Energy Independence – New Energy Projects**
 - Environment Friendly / Clean-Up Work**

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- Clean Technology / CO2 Capture
 - Green Construction
 - Innovative Solutions and Perceived Quality as Key Differentiators in tight Market
 - Strong Balance Sheets : Company Acquisition / Hiring / Project Development Assistance
- Will separately distribute KPMG 2009 Global E&C Survey



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