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**Essen, Germany**  
**4<sup>th</sup> December 2008**

# ECRI Sponsors Meeting Essen, Germany



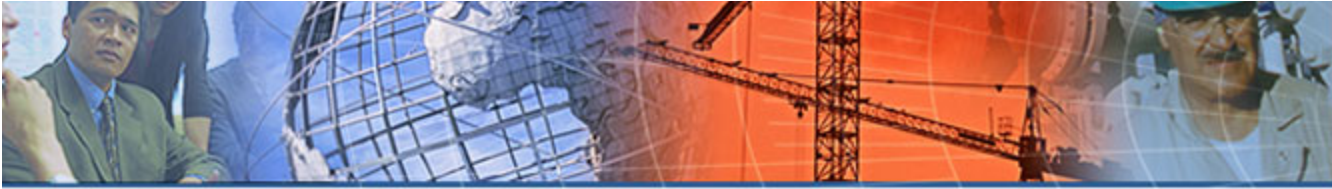
## ***Breakout Topic 1: The Impending Global Turndown***

*Thursday 4<sup>th</sup> December 2008*

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## Global Trends





# Global Trends



**Systemic Financial Risk**



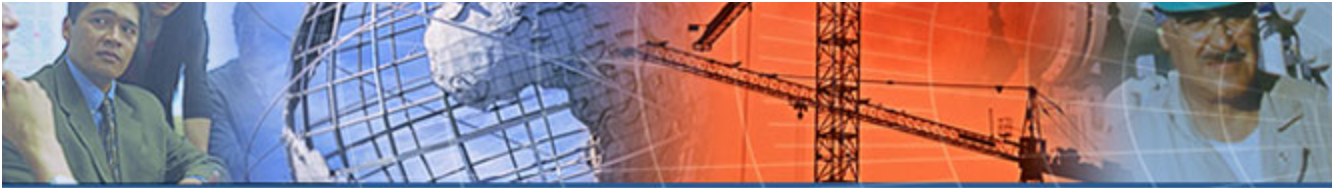
**Food Security Risk**



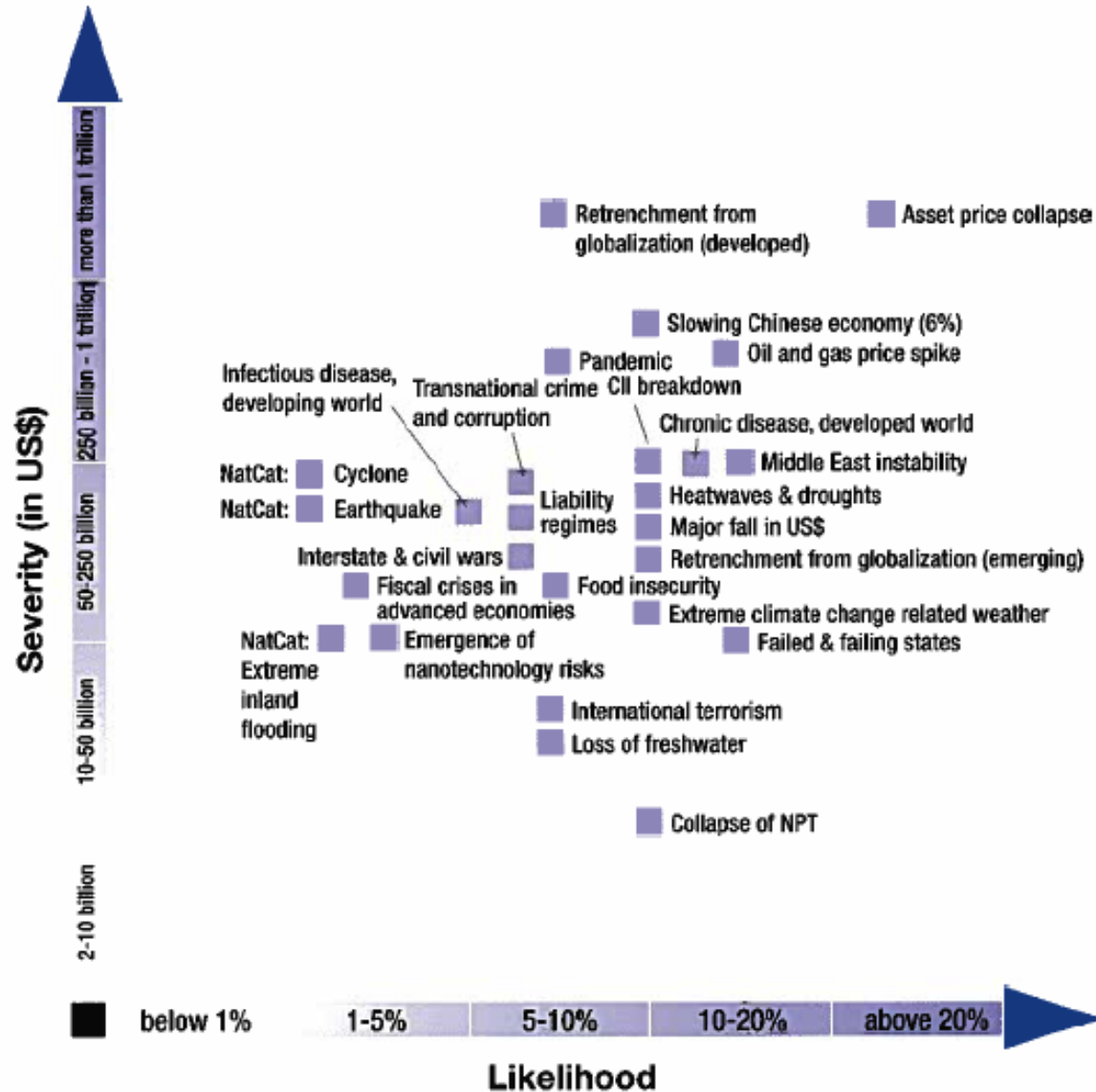
**Supply Chain Risk**

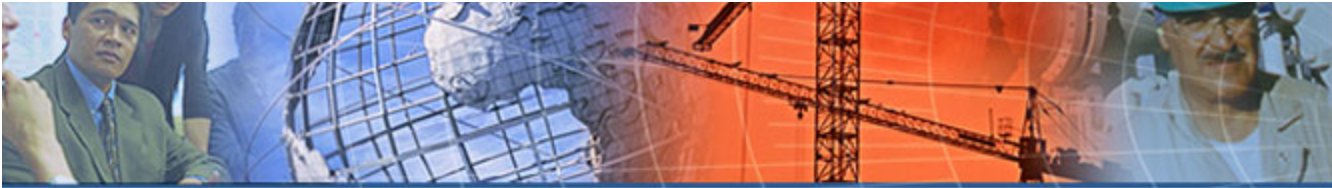


**Sustainable Energy Risk**

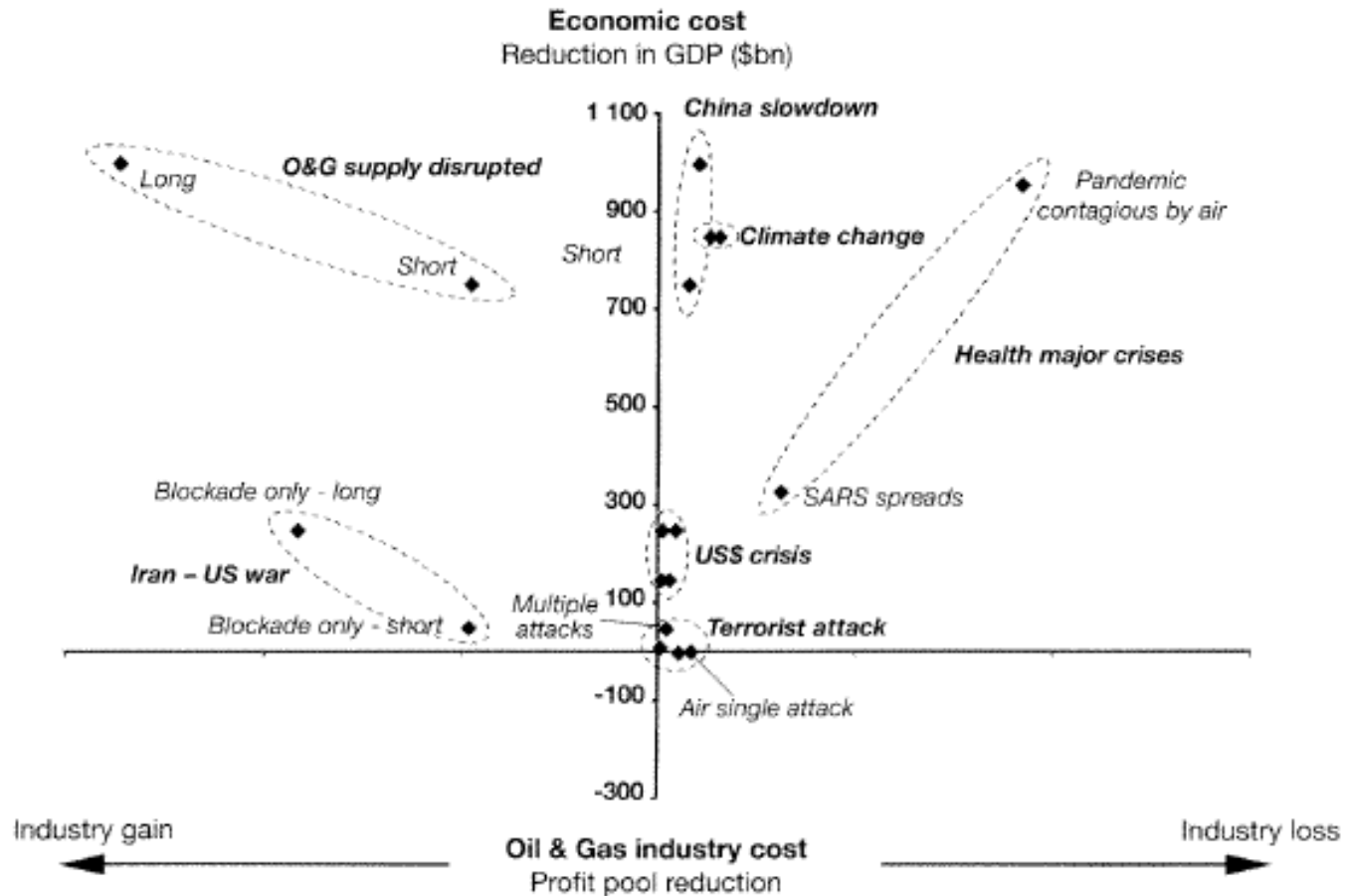


# Global Trends

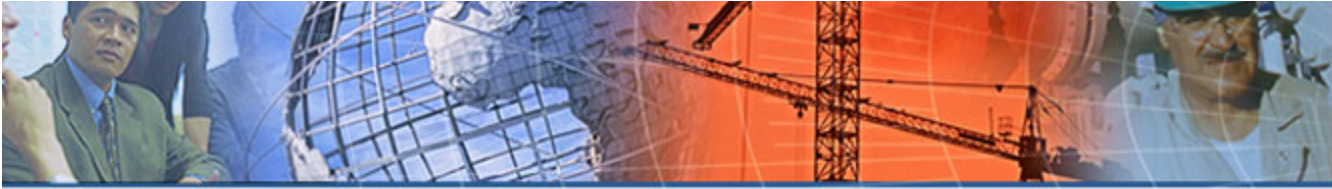




## Global Trends



Note: Assessments of impact are derived from a number of different global risk scenarios developed for the oil and gas industry by Marsh & McLennan Inc.



## Global Trends

### ➤ Volatile Year in the Global Financial Sector

- Financial crisis is redrawing boundaries between government & markets
- Crisis in public confidence
- Limited credit flows within global banking system
- Failures of western dominate banking institutions

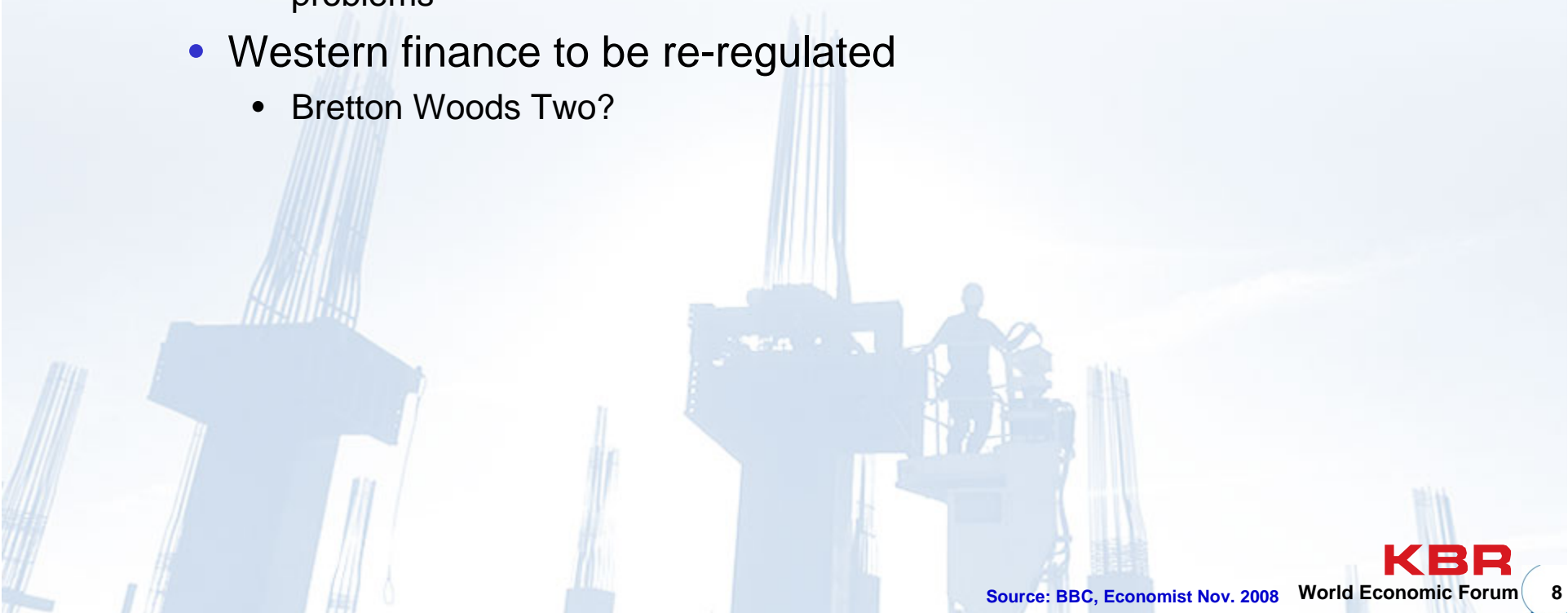




## Global Trends

### ➤ Reversal of Market Triumph over Government

- Balance between state & market is changing in areas beyond finance
- America is losing economic clout & intellectual authority
  - China's vice premier, Wang Qishan, "the teachers now have some problems"
- Western finance to be re-regulated
  - Bretton Woods Two?





## Global Trends

### ➤ Volatile Year in the Oil & Gas Sector

- Record oil at \$147/barrel - 3 months later \$50/barrel
- Increase in E & P
- Record oil profits
- Record oil gives NOC's incentive to acquire more blocks
- Boost in outlook for shipbuilding in Asia etc.
- Key commodity escalations occur
- Sector struck with credit crunch and falling oil prices
- Limited credit stokes fears of delays or project cancellations



## What Does It Mean to the E & C Industry?

- **How long? What will impact?**
- **World market volatility over reaction good & bad**
- **More regulation coming- not less**
- **Consolidation of IOC's – Consolidation in E & C?**
- **Stabilization of oil pricing**
- **Projects delayed, but probably not cancelled**





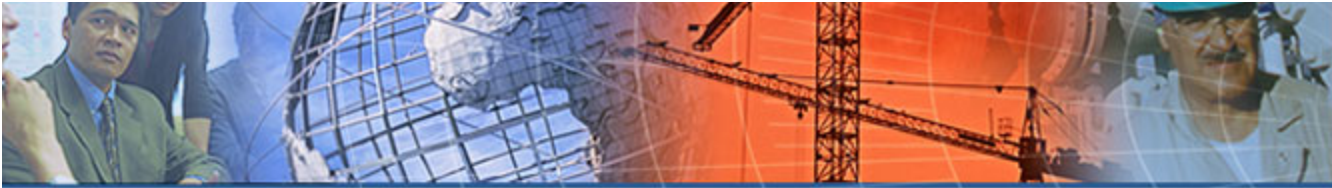
## What Does It Mean to the E & C Industry?

- **Clients becoming less flexible as downturn deepens**
- **Financial checks on client entities and SPV's**
- **If serious downturn, abrupt project cancellations**
- **Ability to arrange funding for future projects**
- **Financial default risk of vendors and subcontractors**
- **Increase beyond norms of external risks causing delays and defaults heavily impacting Primary Contractor.**
- **Role of national oil companies (NOC) and the local issues in these more difficult places.**
- **Industry players revert back to “dog eat dog”/ruthless competition ways of old.**

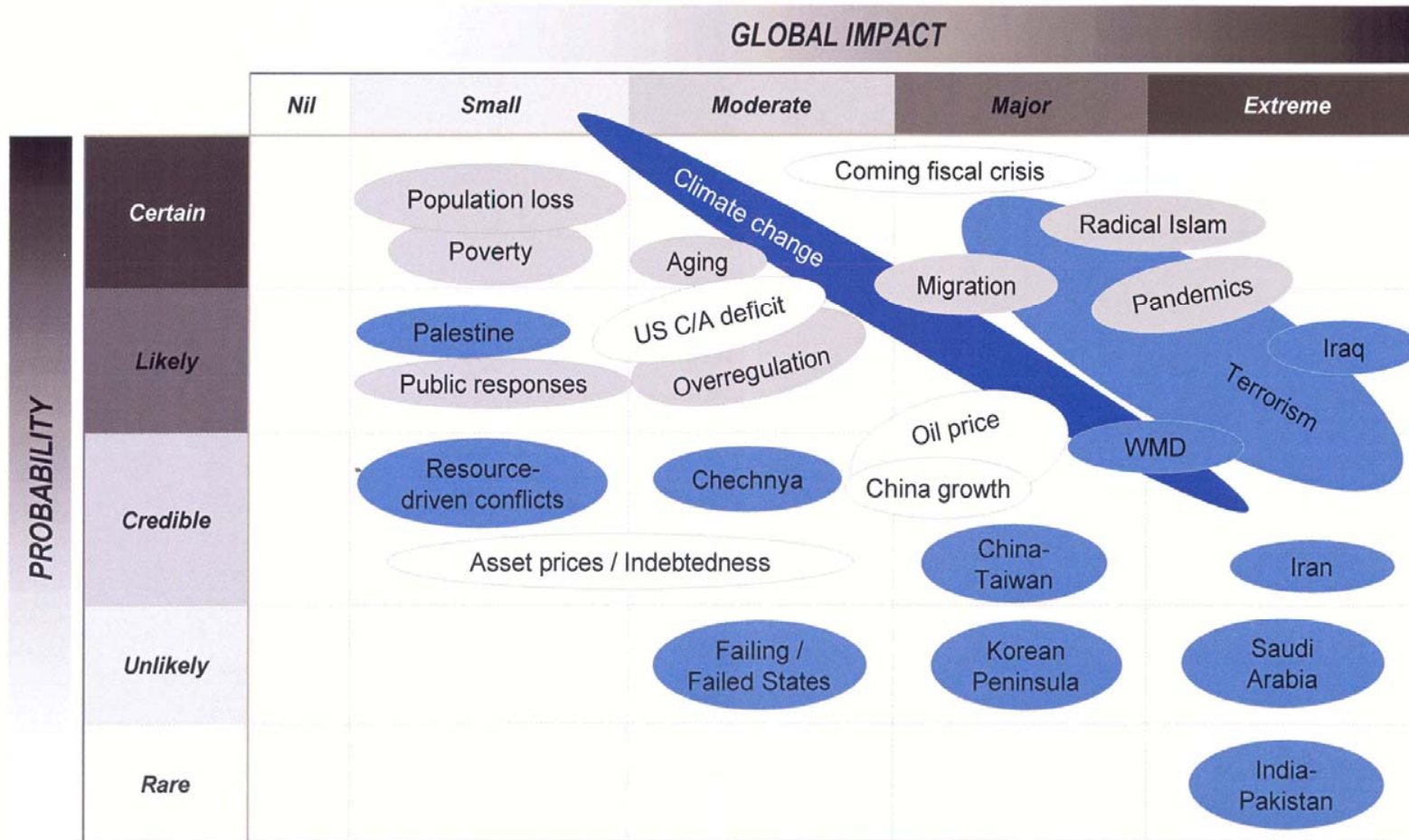


## Risk v Reward Relationship



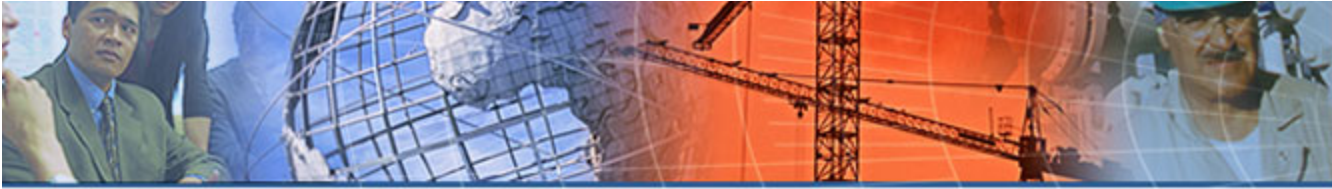


# Global Risk Map



○ Economic risk   ● Geopolitical risk   ● Societal risk   ● Environmental risk

Source: WEF Global Risk Program



## Risk v Reward Relationship

- **Business is about taking risks:**
  - Intelligently
  - Receiving adequate reward
  - Developing a robust framework to cope with the unexpected
  
- **The E&C community's competencies in dealing with risk are:**
  - Engineering risks out
  - Project managing risks out
  - Contracting risks out



## What Might We Do?

- **Position for the Long Term?**
- **Markets often overreact- we should not- how do we consult with our clients?**
- **Chaos breeds opportunities- know where to look?**
- **World demand for energy is still strong long term- what areas- what technologies- what regions?**
- **What does the client base look like now – what does it look like in 2 yrs, 5 yrs, 10 yrs?**
- **What does our industry history teach us? What does the new emerging world order demand that is different?**

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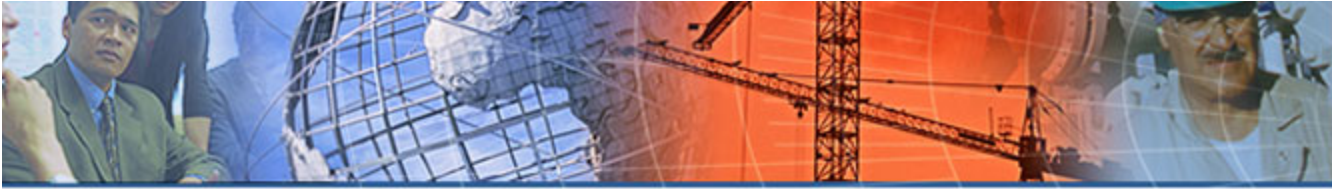


***Breakout Topic 1:  
The Impending Global Turndown  
“What does it mean to the Industry and  
What should we be doing now to  
address it and get ahead of the game?”***

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## Backup Slides





## Global Trends

### ➤ Points of Interest in the Oil & Gas Sector China

- China has emerged from being a net oil exporter in the early 1990s to become the world's third-largest net importer of oil in 2006.
- EIA forecasts that China's oil demand will grow by over 800,000 barrels per day by 2009, or about 32 percent of the projected world oil demand growth for the period.
- Coal supplied that vast majority (70 percent) of China's total energy consumption requirements in 2005. Oil is the second-largest source, accounting for 21 percent of the country's total energy consumption.
- Continued strong demand by China and India may yield dramatic up swing in current pricing after downturn.
- China NOC's view present slowdown as window to acquire blocks of E&P assets at lower prices in absence of U.S. & European players.