LNG

Ichthys LNG project hit by contractor pull-out

The $37bn Ichthys LNG project in Darwin, Australia, has suffered a number of set-backs in the form or delay and cost over-runs. It was recently dealt another major blow as engineering firm CIMIC, which was building the project's combined cycle power plant (CCPP), announced plans to terminate its contract with JKC Australia LNG, the principal contractor on the project, for undisclosed reasons. It is understood the plant was 89% complete. While industry experts suggest the contract cancellation is unlikely to delay Ichthys' planned commissioning later this year, it will most likely hinder the project's production ramp-up and add additional costs.

Being developed by Inpex (operator), Total, CPC Corporation Taiwan, Tokyo Gas, Osaka Gas, Kansai Electric Power, Jera and Toho Gas, Ichthys is expected to produce 8.9mn t/y of LNG and l/16mn t/y of LPG, as well as in excess of 100,000 b/d of condensate at peak.

Tom Duncan, Partner in legal services provider Mayer Brown's international construction and engineering group, and Charles Pacey, Associate, note that this latest news highlights the type of issues that can arise during the construction of large energy projects. 'Australia is in the midst of an LNG export boom but contractors seeking to exploit this opportunity and similar opportunities globally should think carefully about what steps can be taken to mitigate the risks,' they warn.

Advising on how best to mitigate risks, they say: 'For large-scale projects, contractors will often seek to minimise their commercial exposure from the outset by entering into a joint venture (JV) with other contractors to deliver the project. Whilst this is a sensible means of managing a contractor's overall risk, it gives rise to the possibility of conflict between the JV partners themselves. Therefore, it is important to define clearly the scope of each party's responsibility, and to consider making use of mutual indemnities to share the project risk in the agreed manner.'

'Often the seeds of dispute are sown at the very early stages of the project, in the front-end engineering and design (FEED) studies upon which contractors base their detailed design. Any errors or ambiguity in this initial information can lie dormant, only coming to light during the detailed design or even the construction phases of the project once the base line programme and contract price have been fixed, leading to claims for additional time and money whether with the owner or between the JV partners. There will always be time pressures but spending as much time as possible on FEED can help to mitigate the risk of such disputes by providing an early picture of the scope of the work and the challenges involved.'

'Of course, other matters can arise during the course of construction which threaten the progress of the project. Any ambiguity in the contract drafting will lead to arguments as to who bears the risk of such matters. Time taken to address risk allocation at the contract negotiation stage can pay dividends during the construction phase, for example through the careful selection of the most suitable standard form of construction contract, tailored to suit the needs of the project.'

'If a dispute cannot be avoided, almost all construction contracts include an interim dispute resolution mechanism, which allows for the temporary resolution of disputes so that the project can continue and any remaining disputes can be finally resolved following completion. For example, the Dispute Adjudication Board (DAB) model under FIDIC contracts provides interim binding decisions unless and until finally revised by settlement or arbitral award. During this time, the maintenance of proper records and the regular updating of the project programme can prevent a protracted and messy end to mega projects.'

Source: INPEX Australia

Construction at the Ichthys LNG project's onshore facilities at Bladin Point, Darwin – pictured here in March 2016

Business management

Shell voted oil and gas brand leader

Shell has retained its position as the world's most 'valuable' oil and gas brand with a brand value of $37bn, up from $31.6bn last year, according to Brand Finance's latest valuation report.* Sinopec and PetroChina took second and third place, respectively, their brands valued at $29.6bn and $29bn. Even with far lower rates of growth than this year (47% and 43%), both could easily overtake Shell in 2018, suggests the consultancy.

Brand Finance CEO David Haigh continues: 'Sinopec is planning a $10bn IPO of its retail business which includes over 30,000 sites. A clear understanding of brand value drivers will be a useful tool in extracting maximum value from the listing and, post-sale brand management will become even more critical as shareholders demand accountability.'

*In the *Brand Finance Oil & Gas 50 2017* study, the top 50 brands are evaluated to determine their power/strength based on factors such as marketing investment, familiarity, loyalty, staff satisfaction and corporate reputation, and given a corresponding letter grade up to AAA+. Brand strength is used to determine what proportion of a business's revenue is contributed by the brand, which is projected into perpetuity to determine the brand's value.