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Week 25

❖ The Panama connection

As Panama celebrates the opening of its expanded canal, our special briefing assesses the impact the project could have on the global energy trade.

❖ Peace in our time

A peace deal between Colombia's government and the FARC is positive, but it could cause short-term insecurity for oil companies as new risks emerge.

❖ On the block

Argentina's YPF has put up for sale six oil and gas blocks in the southwestern province of Rio Negro.

❖ Ecopetrol offers acreage

Colombia's state-run oil company Ecopetrol has announced it will put 20 oil blocks up for auction on September 30.



The one-off challenge

The Panama Canal expansion project posed unique challenges, Hill International's Peter Wallace told Ed Reed, but some of these could have been avoided

OVERSIGHT

WHAT:

Differences between an owner and a builder can make projects more difficult than they need to be.

WHY:

Communication and auditing of performance is essential.

WHAT NEXT:

Cost and time overruns are common in megaproject work but can be limited and tracked.

THE expansion project for the Panama Canal has been a true megaproject. The development, which was officially launched on June 26, will allow substantially larger ships to transit the waterway, reducing the time between the US' eastern seaboard and Asia-Pacific. It has not all been smooth sailing, though, and Hill International's senior vice president, Peter Wallace, spoke recently to *NewsBase* in order to run through some of the project's challenges.

Hill was appointed to provide project oversight services for the expansion programme in July 2010 by the Autoridad del Canal de Panama (ACP), via the Office of the Inspector General (OIG). The original canal was built by the US, being completed in 1914, and was transferred to the ACP in 1999. As such, its governance structure has many similarities to US institutions.

Major claims department

The OIG brought Hill in to monitor and audit the expansion plans, in particular the Program Management Team (PMT). "Our role was to go in and look at the organisation and give an assessment of it, how it was organised, staffed, the policies and procedures, and consider whether it had the right people, processes and technologies in place to manage the overall plan. We also gave them an audit plan for the five-year contract," Wallace explained to *NewsBase*.

The construction work did not go smoothly and, as a result, Hill's role expanded from auditing into also dealing with disputes. The company moved into helping the ACP "respond to and defend disputes with the contract consortium, Grupo Unidos por el Canal de Panama [GUPC]."

The disputes process involves a standing three-member board, which hears complaints

and makes decisions. "There have been multiple hearings and multiple disputes. If one party is not happy with the decision, it can be referred to ICC arbitration, held in Florida, and multiple claims have been heard – with most of the large ones being appealed."

Working in Panama posed a number of difficulties for the consortium, Wallace noted, in particular delivering earth-moving equipment to the site and crushing equipment for aggregate. "The bulk of the project is very heavy civil work: it's excavation, laying foundations, pouring concrete. There are some very complex parts to it, such as the gates and the electronic systems. The gates were fabricated in Italy and ocean-shipped. Commissioning has been time-consuming and complicated but it's working well. We feel confident."

Many of the problems lie in the unique challenge of a megaproject. Wallace explained that he had worked on a number of such major undertakings, including the so-called "Big Dig" in Boston and the Eurotunnel. Such works always involve risks, he said, and there are always problems with such one-off works. "It's the nature of these megaprojects. They're expensive, complicated and often have large overruns."

One of the recurring problems of such works is that bidders are "wildly optimistic" about what they can do, what it will cost and how long it will take, he continued.

Value for money

The Panama Canal expansion was carried out under a design-build contract, which is a means of limiting the owner's risk, with a single point of responsibility, Wallace said. One of the problems was that the designer was not part of the joint venture, he noted, saying that the designer had instead been a sub-contractor. "That was probably not a good idea. If that had been done differently it may have avoided some of the issues."

One of the ways in which lessons can be taken from the expansion project is the importance of removing ambiguities before work begins, making targets and costs clear in the



Hill's Wallace

Original estimate from GUPC

US\$3.2 billion

US\$1.6 billion

Additional claims from GUPC



► tendering documents. “Take more time at the front end,” Wallace said by way of advice to project planners. “And having a good governance structure around capital planning, have your own independent engineers check on how things are going while under way – but not interfering with the work.”

Another repeated issue, particularly for public contracting, is whether a lowest bid is actually the best bid. The original budget for the canal expansion was US\$3.2 billion, but the contractor has claimed for additional costs of around US\$1.6 billion.

The importance of choosing the right team for the job is particularly important when working on such large-scale, critical infrastructure projects, he continued. After the contract award, contractors and owners should be closely monitoring and checking progress, while using performance indicators in order to ensure work is going as expected.

The foreseen and the unforeseen

As plans come closer to completion, contingencies can be reduced but planners must also factor in some room for “unknown unknowns”, Wallace continued, which would be covered by a project reserve. “If you have a good tracking system and you know what your productivity is, then you can be proactive and tackle problems as they emerge. One issue that emerged at the

[Panama Canal expansion programme] was with local labour, with the contractor complaining that they were inexperienced. Monitoring productivity to ensure goals were being met would have provided a better chance of success. If you ignore early warning signs in construction projects, schedules can suddenly slip by six months and it’s very difficult to make that up.”

On the launch of the project, Panama made it clear that local labour had to have priority, with clear benefits for the country of providing employment and creating a trained workforce. For such a project to succeed, though, it requires training plans and supervision – points on which GUPC fell short, Wallace said.

“There were issues with bad concrete, poor spacing of bars – this is basic QAQC [quality assurance, quality control] work that they should have done.” Basic oversight and supervision can overcome problems thrown up by inexperienced labour, he continued.

Megaprojects have a tendency to overrun, as can be seen around the world, whether those be infrastructure projects or energy projects, such as Gorgon LNG in Australia and Kashagan in Kazakhstan. Tracking how progress is being made, though, and identifying shortcomings as they emerge is in the best interests of all parties. The Panama Canal expansion should be something for the country to feel proud of, but there are clearly also lessons to be learned. ❖