



Master Servant Relationships

I am constantly baffled by the perception in our industry that Owners are the "Masters" and Contractors are the "Servants". As mining companies, we are killing ourselves. We are squeezing contractors' margins so tight they barely have room to breathe.

I speak with mining leaders every day. They are looking for expert advice in contract strategies and contract formation. Typically, my new clients come to me with preconceived notions mining companies can use contractors as an insurance policy for cost and schedule overruns. This is a fallacy. Contractors do not have the balance sheet to support the massive cost and schedule runs our market is suffering on mega projects.

Market statistics indicate that 4 out of 5 mega projects suffer cost and schedule overruns of nearly 50%. That's a lot of money. On a Billion-dollar project that's a \$500M price tag. Ouch.

Turquoise Hill Resources recently announced the expansion of Oyu Tolgoi could cost up to an additional \$1.9 Billion while also being 21 to 29 months late. In addition to the additional capital costs, think about the lost revenue of being 2 years late. The Oyu Tolgoi mine is anticipated to produce 550,000 tonnes of copper and over 450,000 ounces of gold per year at peak. At today's prices that's over \$7 Billion in lost revenue in 2 years!

With those numbers it's hard to blame mining companies for their desire to find a solution. However, the answer does not rest on the backs of contractors.

Selfishly our industry should desire a happy and healthy contractor market, but we don't. We beat up contractors on the basis of "price" and are often chasing fabricated "savings". If we continue to pinch contractors there won't be any contractors left. Look at South Africa, the nation's top construction companies like Group 5, Basil Read and Esor all folded their tents. Trying to execute a mega project in South Africa, good luck finding qualified and competent contractors to build the project for you...

Trying to build a mega project in Peru? Good luck there too. I am not saying the Odebrecht scandal and the corruption in countries like Brazil and Peru is the fault of mining companies. I am saying they played a part. If Odebrecht was operating on a healthy balance sheet making comfortable margins, would they feel the need to bribe public officials to secure government projects? I'm not so sure and I think it's worth considering.

As mining companies, we should look at contractors as an extension of us. We need contractors to build the \$60 Billion the top mining companies expect to spend every year for the next five years! We don't have the staff, the resources, the systems, or the experience to deliver the complex projects, often in remote areas, we have in our collective pipeline.

Our focus should be on value, not on price.

If you're interested in discussing this topic further, please contact me directly. I would appreciate the opportunity to get your perspective and collaboratively support our industry together.

Many thanks, and much appreciated.



Jason Fearnow
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To effectively execute mining projects, it takes a different level of tact. It's not about working harder, it's all about working smarter.

And we are passionate about doing things better – no more horrifying industry statistics – there is a better way!

Check out our other insightful and thought-provoking content at <http://www.jasonfearnow.com>

Or grab a time to meet with me 1:1 to discuss the unique challenges of your project.