Risk in Contracts

A zero sum game?
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# Factors influencing Business Case

<table>
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14-3-2019 Risk in Contracts
# Factors influencing Business Case

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Risks

- Start-up
- Accident
- Delays
- Permits
- Design Integration
- Technology
- CAPEX costs
- Soil Conditions
- Bankruptcy
- Supplier
- Operability
- Environment
- Maintainability
- Quality of Work
- Interruption existing
- Force Majeure
- Public Opinion
- Interfaces
Parties to share

Additional Risks
• (Contractual) interfaces
  • Procedures
  • Records
• Sub-optimization
  • Own production
  • Own profit

Insured Risks
• CAR
• Professional Indemnity
• 3rd Party Liability
• Property Damage & Business Interruption

- Owner
- Financer
- Original Equipment Manufacturer
- Supplier Tagged
- Supplier Untagged
- Contractor
- Subcontractor
- Engineer
- Insurer
- Contractors
- The World
  • Public
  • Third Parties
  • Customers
- Project

Risk in Contracts
Moving panels (priorities)

- Business Case Ceiling Cost
- Cost Driven
- Time Driven
- Feasibility, Basic, Detailed
- Procurement, Construction
Allocating risks in contracts

Risk = Effect x Chance

Risk vs. Revenue
Risk vs. Impact

14-3-2019
Risk in Contracts
Summary

• Owner has (all) risks
• Owner wishes to transfer risks in supply chain
• Supply chain adds risks
• Success (risk) focus changes (cost \(\rightarrow\) time \(\rightarrow\) cost)
• Risk transfer: discrepancy between impact and “fair and reasonable” considering revenue

• What is “good practice” for B.V. Netherlands