



BECHTEL

# Project diplomacy

David Welch is senior vice president of US engineering and construction giant Bechtel, as well as its region president for Europe, Africa and the Middle East. The former US diplomat discusses how intimate regional knowledge helps drive the firm's Middle East ambitions

by Mark Lazell  
mark.lazell@tradedearabia.net

**A**LMOST 70 years ago American firm Bechtel won its first contract in the Middle East, to enlarge the main oil refinery in Bahrain. The contract scope, minor by today's standards, laid the foundations for a web of close and fruitful working relationships the US engineering and construction giant has since forged at the highest levels in the region.

David Welch, who heads up Bechtel's Europe, Africa and Middle East operations, is probably not the sort of person to let such a weight of corporate history and regional achievement faze him. Prior to assuming his post he held a number of high profile posts in the US diplomatic service. From 2001 to 2005 he was the US ambassador to Egypt, and from 2005 to 2008 the assistant secretary of state for Near Eastern Affairs in the US Department of State. An Arabic speaker, his diplomatic career also saw him serve key postings in Syria, Jordan and Saudi Arabia, as well as Pakistan.

Such wealth of experience and knowledge is undoubtedly beneficial as Welch helps Bechtel navigate the often unpredictable and sometimes choppy waters of the Middle East over the last 18 months in particular.

"Has Middle East instability caused us [Bechtel] to re-evaluate our business strategy in the region? The simple answer is no, but it is not a callous no," he tells *The Gulf*.

He emphasises the company's policy of being "cautiously vigilant" wherever it operates, and managing the risks it faces. "We do not accept risks to our people. [Chairman and chief executive] Riley Bechtel believes safety is a company value, including safety from security risk."

Over the last seven decades, the company has certainly experienced the full gamut of Middle East experiences – the handsome rewards and the



Khalifa Port in Abu Dhabi

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inevitable risks.

The beginning of its relationship with the region in the post-war 1940s coincided with a conscious strategy on the part of the Bechtel family to focus on the biggest projects it could handle – particularly those it could project manage in their entirety.

The decision to closely engage with the region apparently paid off. Four years after the Bahrain refinery contract Steve Bechtel, son of company founder W A Bechtel, visited Saudi Arabia – then a vast land with a lot of desert but almost no infrastructure – and returned with a contract to build a 1,300 km section of the Trans-Arabian pipeline, which would link oilfields on the Gulf to the Mediterranean Sea.

"We have been involved in this region

in good times and bad, through a wide variety of historical events, from the 1990 [Iraqi] invasion of Kuwait to the Algerian civil war," says Welch, putting the 'Arab Spring' events since early 2011 firmly into context.

"In the last 18 months, we've been OK. We had to stop our operations in Libya at the height of the confrontation there but we re-opened our office some months ago. In Egypt, we had a brief interlude for safety reasons. Elsewhere it was business as usual."

'Business as usual' in Bechtel parlance normally means mega projects, and this year has been a significant one for the company in this region in that respect.

At the beginning of last month, the company marked the start of commercial operations at the first phase of a \$7.2 billion port and industrial complex in Abu Dhabi (see also page 44-45) which it had 'program managed' in its entirety for Abu Dhabi Ports Company (ADPC), the client.

Such projects have helped Bechtel sail relatively smoothly through a difficult period for the countries in the wider region. Although he chooses not to reveal how much the Middle East contributed to Bechtel's global revenues

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of almost \$33 billion in 2011 – which were up 18 per cent from 2010 – Welch suggests the company enjoys a sound financial base here.

"We have had a healthy Middle East business for a generation. It goes up and down due to the market rather than regional events, which is not unusual," he says

"We are a privately held firm. We take pride in being good at what we do. If that means we are big in dollar terms that is a good thing too, but is not the prime driver for us. We want to pick our projects and deliver them in the way the client wants."

Welch speaks of how diversity in the business helps mitigate negative market cycles as well as events which are more difficult to forecast.

"As a global business you want to manage your portfolio responsibly. We want to be competitive internationally, we want to be worldwide capable, but we want to have a balanced portfolio. Diversified geographically, and in the types of projects we do, so all our business lines are productive. We'd like to have different kinds of contracts to balance out the different kinds of contract risk."

Welch's diplomatic nous is also no doubt helping forge closer links with regional stakeholders.

"I think we have a good reputation in the region," he remarks, adding that the company goes about its business quietly. "We don't have our signs all over everything," he insists.

» Going about things quietly isn't easy when some of the region's most strategically-important infrastructure projects – such as the Khalifa Port and industrial zone in Abu Dhabi – are part of your global portfolio.

Flush with oil wealth on the back of high crude prices, Gulf states have prioritised infrastructure investment to support economic growth. Welch suggests this will continue to be a growth driver for Bechtel going forward.

"This appears to be a fairly sweeping decision on the part of all economies, and we think that represents an opportunity," he says.

The region president is outwardly unconcerned about the effects of the global economic slowdown on Bechtel's regional prospects. He also notes that long lead times for large construction projects can absorb market oscillations.

"We are in a period of global economic stress, but logically that does not have an effect on long-term planning. It takes several years to conceive a project, plan it and execute it.

"Construction industry time lag is about two years – if the market is soft now, in about two years' time you can expect it to have an effect on the business. That's why our strategic plan seeks to balance out the kinds of businesses we have and the places we have them."

For Bechtel, its enduring track record in the region – according to Welch is has the longest history of any American engineering and construction firm in the Middle East – provides a platform for future growth, though Welch is well aware of the need to continue engaging with its partners in the region to "get hired".

"We don't have several million shareholders to whom we can turn for equity, nor a government that will finance us or our project," he says.

"We are in a competitive business and that competition is growing. Public finance globally is now strained, and that has an impact on businesses where national governments or parastatal entities are involved because it is just difficult for them to borrow," he continues.

In Welch's opinion, this puts even



Bahrain's oil refinery

greater onus on Bechtel to be good at what it does.

"Big investments are being made and investors want them delivered on time, to a high quality standard, safely, and ideally within the allotted budget.

"I think we have, for the most part, been able to do that and when they look around the world and say 'we've got to build a very sophisticated gas processing plant or LNG [liquefied natural gas] plant or smelter, here's who we would logically look at to do it' – in most cases we would be in the top three or top five competitors," he explains.

Welch acknowledges the challenge of achieving greater local involvement in regional projects, even though Bechtel designs training programmes to capture local talent in the jobs market.

"In Oman, when we built an aluminium smelter, we had a very significant number of Omani contract hires, and we trained quite a number of them. It was the first significant training programme that involved women workers, a fact which the Omanis still refer to with pride," he recalls.

In Saudi Arabia, Bechtel has a rolling programme geared to training higher end engineers who can then play a role for the Royal Commission [for Jubail and Yanbu] – Bechtel's long-standing client for the development of Jubail Industrial Port – in expanding the rapidly-growing city's downstream industries.

"It is a competitive business getting these guys because the likes of Aramco

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and Sabic [Saudi Basic Industries Corporation] also need these skills," says Welch. "The Royal Commission like what we are doing and we want to do more, but we all understand we are in a competitive labour environment."

The theme of people and skills continues as the interview draws to a close. The former diplomat says in his experience of both business and diplomacy, people and the quality of their decision making "are everything".

"Decision making is tough. I have been involved in a lot of serious foreign policy decisions and they are never easy. What you don't know is often greater than what you know. In business, you try to make decisions based on quality information and reasonable judgement of risk," he observes.

In a volatile Middle East, such observations have even greater resonance. ■