A joint initiative of the Queensland Major Contractors Association and Construction Skills Queensland

2014 Major Projects Report Update

1. Overview – Key Messages

Welcome to this update to the 2014 Major Projects Report – the aim of which is to provide a mid-term snap shot on the outlook for major engineering construction projects (>$100 million in value) and activity in Queensland.

In aggregate, the outlook remains very similar to the 2014 Major Projects Report (which was released in February, 2014), with major project activity forecast to decline by nearly 50 per cent over the next three years (from its 2012/13 peak) before posting a modest recovery thereafter.

Tight government finances, at the State and Federal level, low commodity prices, particularly coal prices, and a strong dollar all continue to impact Queensland's Major Projects short term outlook.

2. Queensland Major Projects Update

Overall, the revised Mid-Year forecasts for Major Project work still follow the path set out in the initial report. Following $14 billion in 2013/14, Major Project work done is anticipated to decline to $8.8 billion by 2015/16.

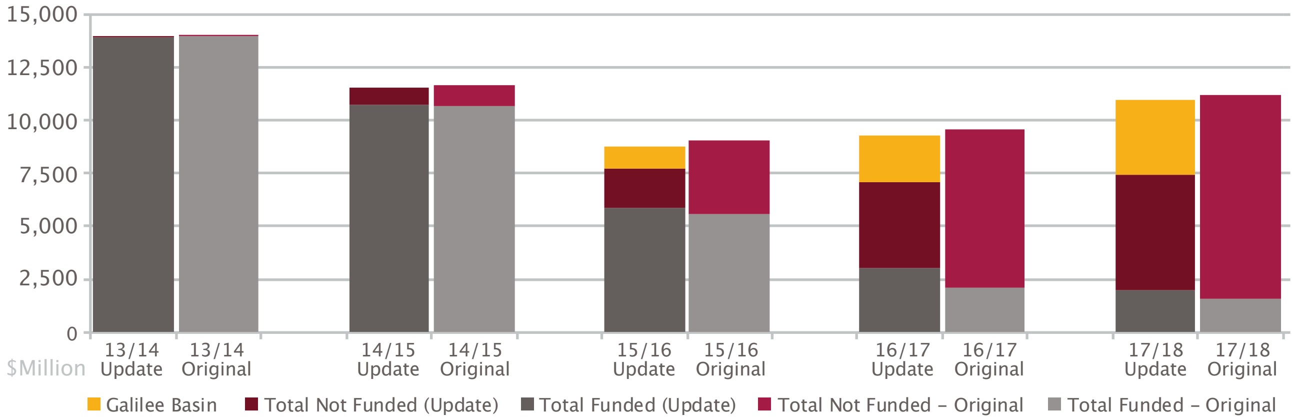
This represents a 37 per cent decline from the 2013/14 levels and a halving of work since 2012/13. Over the remaining two years, major projects activity is forecast to edge higher, rising a cumulative 25 per cent to $11 billion by 2017/18.

However, as Chart 1 highlights, the Major Project outlook has been revised down slightly across the forecast horizon.

Given more recent information, we have delayed the commencement of a number of projects in the water (Lower Fitzroy River Projects), rail (the unfunded Gold Cost Light Rail Stage 2) and mining (Foxleigh Plains Project/Gold Cost Quarry) sectors.

However, offsetting these projects is an earlier than previously anticipated start to the Toowoomba Bypass and as well as a pull forward of the Coomera to Helensvale: 2nd Track rail project. Both these latter developments stem from announcements in the 2014/15 Queensland State Budget.

Chart 1 – Impact of Galilee Basin on Major Project Work



3. Risks

Given the dominance of major resources projects and exposure to global commodity prices, Queensland's construction industry will remain highly volatile and subject to risks. Key downside threats to our base case include:

- Low coal prices and a high cost base, which continue to threaten Queensland's status as a premier coal investment location. Specifically, timing regarding the start of multi-billion dollar projects in the Galilee Basin remains uncertain despite recent Federal government approvals. With thermal coal prices falling below US$75/tonne and funding still uncommitted for projects in this region, the prospects for our current timing become more unlikely on an economic basis. We have highlighted this specific risk in Chart 1. As shown, any delays to projects in this region – spanning mine, rail, port, water and electricity – will have a significant impact on the outlook for Major Project work. In addition, we still have a number of projects with allocations to the 27mt Wiggins Island Coal Terminal development, which is due for completion in late 2014/15, uncommitted and unfunded. Again, any delays to these projects could further worsen the outlook then currently presented in this Mid-Year Update.
- Uncertainty surrounding the timing of the next round of brownfield LNG projects. Australia's relatively high cost structure coupled with increasing competition from global sources has already seen Shell delay its Gladstone based LNG project indefinitely. Similar factors also pose a risk to the next round of brownfield projects. We currently have the first brownfield expansion timed for 2016/17. Should this project not proceed, Major Project activity in Queensland would slump up to a further $2 billion per year from 2017/18.

Opportunities on the upside still remain since our initial report, including:

- The possibility of an earlier boost to public investment through asset sales (privatisation). The recent Commission of Audit highlighted Queensland has a large number of multi-billion dollar asset that could be privatised. Key examples include the port of Townsville and port of Gladstone. Such a move could free up funding for major transport projects given a weakening resources sector and more generally a slowing economy. However, this is all subject to timing and political uncertainty, particularly with Queensland State elections due in March 2015.
- The real wild card remains the Australian dollar. Further sustained depreciation of the Australian dollar will boost US dollar profitability of Australian energy and resource projects. This could see an earlier upswing for a number of major energy and resources projects.

Implications

While it may be too late to arrest the forecast halving in major project work, actions should be taken now to tackle challenges facing the industry – particularly, high costs and low competitiveness – so that Queensland can be better placed to attract investment and meet the demands of future cycles in Major Project work.

Whilst a lower Australian dollar will help, the timing and magnitude of any future currency depreciation is highly uncertain and industry participants will need to focus on what can be controlled and achieved to reduce inefficiency and costs.

What Government can do:

- Adopt sustainable tendering processes rather than simply favouring the cheapest price
- Stick to promised procurement timetables and plans to help reduce construction costs
- Persevere with reforms that improve industry competitiveness and productivity
- Accelerate asset sales and recycling programs to help fund new productive infrastructure
- Seek a bipartisan approach in determining Queensland's infrastructure priorities and needs
- Time spending (and approvals of private projects) to smooth the boom / bust investment cycle
- Be ready to procure public sector projects as needed to retain Queensland construction skills

What the construction industry can do:

- Deliver on workplace efficiencies
- Balance wage demands with productivity gains
- Encourage innovation at all stages of major project delivery

Given the sharp fall in major project work expected in Queensland, and emerging opportunities for work outside of the state (and outside Australia), it is imperative that Government and industry work together to ensure construction skills and capabilities are maintained in Queensland, and the economy remains sound. Given current market conditions, this includes facilitating private investment where possible (such as through Projects Queensland), whilst also maintaining a strong public sector investment pipeline that can be drawn upon to sustain employment and growth.

Overall, Government and industry should continue to focus on reducing costs caused by inefficient work practices or regulations, without risking high quality, sustainable outcomes, safe workplaces and decent working conditions.

Maintaining a healthy Queensland economy depends on sustaining an innovative construction industry which is flexible in responding to the challenges ahead, and has the right mix of skills and competencies to meet future demand.