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Labour costs squeeze gas sector

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on time and on budget. “The base costs, mainly labour, are very high in Australia, certainly for us the highest in the world at present,” Mr Cruddas said.

The comments come after credit ratings agency Fitch warned that huge capital expenditure requirements for new liquefied natural gas projects would weaken the financial strength of oil and gas companies.

Free cash flow of Australian oil and gas companies was likely to remain negative, the agency said. It expects debt funding to become more challenging, potentially forcing companies to raise fresh equity to cover project cost blowouts.

Australia has more than 60 million tonnes a year of LNG supply capacity under construction, involving 15 production units, or trains.

However, cost pressures have hit the sector hard.

Woodside Petroleum has suffered a cost blowout of more than 25 per cent at its \$14.9 billion Pluto LNG project in Western Australia, which is now due to start deliveries in March.

The company also faced escalating costs over its proposed Browse LNG project, with estimates for building the plant soaring to \$US40 billion or more.

Mr Cruddas, who flew into Perth from the United Kingdom last week and is in Brisbane investigating acquisition opportunities, said conditions for investment in Australia remained robust, largely because of demand for resources from North-East Asia.

“The Australian financial market has come through pretty well, certainly when compared to everywhere else in the world,” he said. “There are good opportunities there.”

But he warned that the ability to deliver projects on time and on budget was under increasing pressure as the world’s major resources compete for scarce labour.

“There is so much work being planned or being looked at across



Tony Cruddas says Australian investment conditions are robust. Photo: GLENN HUNT

the resources sector,” Mr Cruddas said. “When you add oil and gas, liquefied natural gas and minerals, it is all chasing the same resource base in the engineering and construction industry.”

Australian companies with planned projects offshore also faced increased pressure due to the

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Tony Cruddas, AMEC business leader

higher exchange rate and rocketing skilled labour costs, Mr Cruddas said.

He said the challenge for mining services companies was to offset high costs by outsourcing work to cheaper destinations offshore.

“The labour costs plus the very high exchange rate make those international projects more difficult to get away,” he said.

“That’s why we are trying to see how we can blend the high cost of Australia with some lower costs from elsewhere in the world to

come up with something which still allows our clients to approve their projects.” AMEC first joined forces with Perth-based energy and resources services company Clough in 2004 to cash in on a looming oil and gas development boom.

The company has since acquired project delivery and engineering firms GRD Minproc, Zektingroup and Aquenta for a combined \$190 million.

AMEC is now targeting opportunities to provide environmental services to Queensland’s coal seam gas sector as the nation prepares to overtake Qatar as the world’s biggest LNG supplier by 2017 or 2018, according to the federal government.

“That is our top priority at this point in time,” Mr Cruddas said.

He said further acquisitions were on the cards despite increasing pressure from its UK investors and analysts to return cash to shareholders.

“We still are cash rich and we still have a good balance and continue to look for acquisitions that add either geography or capability,” Mr Cruddas said.

Labour costs hit gas sector

Dan Hall

Labour costs in Australia’s booming resources sector are the highest in the world, driven by fierce competition for skilled workers needed to build more than \$220 billion of planned and financed gas projects, according to the business leader for global mining and energy services specialist AMEC, Tony Cruddas.

AMEC is vying for engineering and environmental work in the oil and gas sector in Western Australia and Queensland and has spent almost \$200 million acquiring Australian companies servicing the resources sector since November 2009.

But Mr Cruddas said labour shortages had affected the ability to deliver major resources projects

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