Australia: CIMIC Group's takeover of UGL foreshadows more job cuts

Oscar Grenfell
1 December 2016

A takeover of UGL, an Australian-based mining and engineering contractor, by the Spanish-owned construction company CIMIC Group foreshadows further restructuring of UGL and a stepped-up assault on its workers' jobs, wages and working conditions.

UGL shareholders are set to vote on the $526 million hostile takeover bid in the next week and a half, after UGL's board of directors approved the offer last week. The announcement followed CIMIC Group's acquisition of more than 50 percent of UGL's shares. In a symptom of UGL's decline since the end of the mining boom, the takeover offer values the business at $3.16 per share, down from $22 in 2007.

The UGL board issued a statement declaring that the company's acquisition meant "UGL may not be able to execute its current strategy, business plan or turnaround" and its "business mix may change" if CIMIC Group "determine that some assets should be divested."

CIMIC Group will conduct a review into UGL's business model in order to "drive operational efficiencies." It has flagged a potential sell-off of assets, along with an overhaul of management and other cost-cutting measures, raising the prospect of layoffs and closures of UGL-operated workshops and sites.

The takeover underscores the deepening crisis of a host of mining and engineering contractors as a result of the collapse of commodity prices, the implosion of the mining boom and a marked slowdown in the construction sector.

CIMIC Group's bid for UGL, unveiled in June, coincided with a 28 percent fall in UGL's share price, driven by a worsening dispute over Japanese company Inpex's Ichthys liquefied natural gas (LNG) project in Darwin. A joint venture between UGL and Inpex contractor JKC, the construction of the project has reportedly been marked by repeated delays and disruptions, resulting in major cost blowouts.

In August, UGL announced a $200 million write-down on contracts for the Ichthys project, amid disputes with JKC. Workers involved in the LNG plant's construction have been forced to foot the bill for its ongoing crisis. In June, JKC announced 130 redundancies. In November, another 460-480 jobs were cut. Among them were 380 boilermakers, electricians and other tradesmen employed by UGL, and up to 100 staff employed by JKC.

Law firm Slater and Gordon has foreshadowed a shareholders' class action against UGL, alleging that the company did not disclose delays at the Ichthys project. In August, UGL posted a full-year loss of $106.3 million, largely on the back of the Ichthys project. Earnings for the construction and engineering divisions of the firm fell by 67 percent to $13.9 million, with fewer contracts in the resources and utilities sectors.

Last year, UGL registered a $236 million loss. The company responded by deepening a restructuring that it began following the global financial crisis. In September last year, it axed 200 jobs. The sackings followed a spate of workshop closures and major job cuts, including at Ballarat in 2012, Taree and Broadmeadow in 2013 and Chullora in Sydney in 2015. (see: "UGL workers face deepening job cuts in Australia and Asia")

The Australian Manufacturing Workers Union (AMWU), which covers a number of UGL's sites, played the central role in enforcing the sackings. At UGL's Auburn rail workshop in Sydney, the union defied a vote of workers in September 2015 demanding a halt to retrenchments, and blocked a motion put by

© World Socialist Web Site

workers to hold a sit-in until the company agreed to reinstate all employees who were contesting their retrenchments.

In every instance, the union worked with management to suppress opposition from the workforce, clearing the way for job cuts and an ongoing assault on working conditions. (see: "Australia: Union imposes job cuts at UGL, defying workers' votes")

The most recent sackings followed years of restructuring that have seen UGL's workforce decline from a peak of around 80,000, to less than 8,000. The company sold off its UK-based retail division, and scaled back its operations in the US and China, in the wake of the 2008 crash.

For his role in imposing the restructures demanded by UGL's corporate shareholders, Ross Taylor, the company's CEO, is set to receive a payout of at least $7.6 million. Almost $7 million of that is tied to his "performance," i.e., pushing through the attacks on UGL's workforce.

CIMIC Group's history makes clear that further restructurings are on the agenda. Formerly Leighton Holdings, the business changed its name in early 2015 following a series of allegations of corruption, bribery and other malpractices. The ultimate owner of CIMIC Group is now Grupo ASC, a Spanish-based company with construction, telecommunications and engineering operations around the world. It has total assets valued at over €34 billion in 2016.

In 2013, the *Financial Times* reported: "Long considered one of Spain's most secretive companies, ACS acquired a fearsome reputation for launching bold takeovers, using debt to buy up assets and then selling them on for a profit in a manner some analysts quipped was more akin to a private equity group than a construction company."

Since its acquisition by ASC in 2014, CIMIC Group has launched a series of takeover bids, taking advantage of the financial woes of companies in the engineering and mining contracting sectors. At the beginning of this year, CIMIC Group acquired Sedgman, a mining contractor, and earlier took over Devine, a construction company.

The *Australian Financial Review* last month noted the growing number of takeover bids in the contracting sector. Danny Younis, senior analyst at investment group Shaw and Partners, told the newspaper: "The contracting game is currently more depressing than a Dostoyevsky novel, and it is no wonder in the past year or so we have seen companies like ALS, Bradken, Emeco Group, Downer EDI, Ausenco, Sedgman, Broadspectrum, Coffey and now UGL all either be an acquirer, acquired or subject to takeover offers."

The newspaper listed a host of other contractors that have gone into administration, including ADG Global Supply, SubZero Group, Hughes Drilling, THO Services, WDS, Viento Group and Titan Energy Services.

Construction activity in Australia last month was at its lowest level since 2010, with the September quarter down by almost 5 percent on June. Non-residential building fell by close to 11 percent—the steepest drop since 2000. At the same time, mining companies have laid off thousands of workers and demand for coal, iron ore and other commodities remains low.

Speculating on what CIMIC Group will do with UGL, the *Australian* last month suggested that it may "tip" part of UGL into Ventia, CIMIC's infrastructure, utilities and telecommunications firm, before selling off the new entity. Such a move would inevitably entail further job cuts.

The AMWU has issued no public statement on the takeover of UGL. This is a signal that, as in the past, the union will work with management to impose the demands of the corporate shareholders for ever-greater "efficiency" and profits.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact