The Impact of the Middle East Fuel Crisis on Australia's Civil Construction Sector

Report prepared for the Civil Contractors Federation Australia Ltd

by

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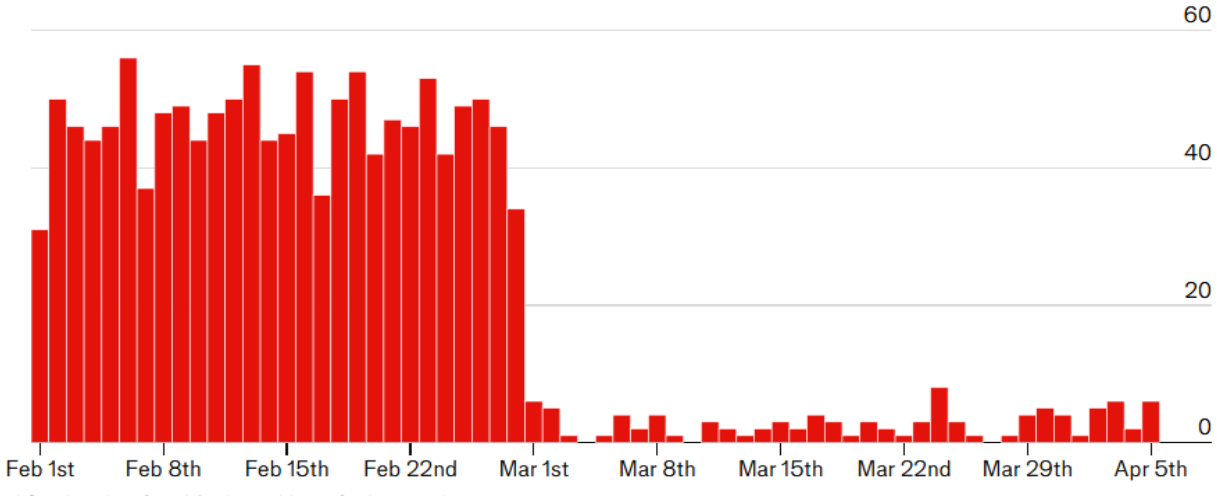
Introduction

The conflict in the Middle East initiated by the United States and Israel on 28th February 2026 has had an immediate and profound impact on the prices of crude oil, refined petroleum products, natural gas, and a range of other products for which the nations on either side of the Persian Gulf are a major source (Chart 1). As a result of Iran's ability, thus far, to close the Strait of Hormuz (which separates the Persian Gulf from the Arabian Sea and the Indian Ocean) to almost all commercial shipping, and damage done to some oil and gas production facilities located around the Persian Gulf, there have also been significant disruptions to the supply of these products to global markets (Chart 2), disruptions which may well persist for some time after the cessation of military hostilities (whenever that might be).

Chart 1: Brent crude oil price

Note: data up to 8th April. *Source:* LSEG Datastream.

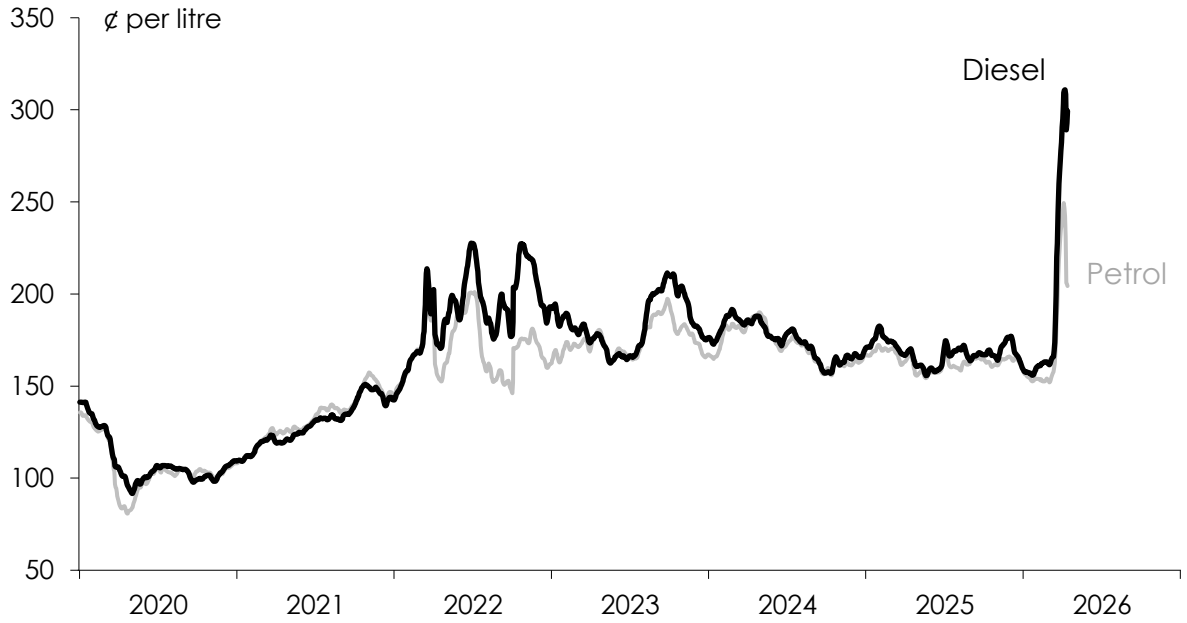
Chart 2: Commercial tanker traffic through the Strait of Hormuz



Source: *The Economist*, 7th April 2026.

The effects of the Middle East crisis have been quickly transmitted to Australia. Terminal gate prices of petrol and diesel had risen, as of the end of March, by 90.7 cents/litre (59.6%) and 145.2 cents/litre (88.9%), respectively, since the conflict began at the end of February (Chart 3). As of 3rd April (before the temporary cut in fuel excise announced by the Federal Government on 30th March had been fully passed on), wholesale petrol and diesel prices are still 49.2 cents/litre (32.8%) and 127.3 cents/litre (78.0%) higher, respectively than before the commencement of the war.

Chart 3: Australian national average terminal gate prices for petrol and diesel



Note: data up to 3rd April. *Source:* Australian Institute of Petroleum, *Historical ULP and Diesel TGP Data.*

84% of Australia's refined petroleum product requirements in 2025 were met by imports, up from 36% in 2011, according to the Federal Government's *Petroleum Statistics* publication. Imports accounted for 69% of Australia's automotive gasoline (petrol) requirements last year (up from 18% in 2011), and for 90% of Australia's requirements for diesel (up from 46% in 2011). And 96% of those refined petroleum product imports are sourced from refineries in Asia, who in turn source most of their crude oil requirements from the Middle East. – and in particular, from oil-producing nations who export most of their crude through the Strait of Hormuz.

Hence, although the Australian Government has been making strenuous, and thus far successful, efforts to ensure that Australia continues to receive the shipments of refined products on which it depends, there is inevitably some risk – if Gulf War III continues, or escalates – that these supplies may be interrupted, resulting in shortages of refined products in Australia which in turn necessitate some form of 'demand management' or rationing.

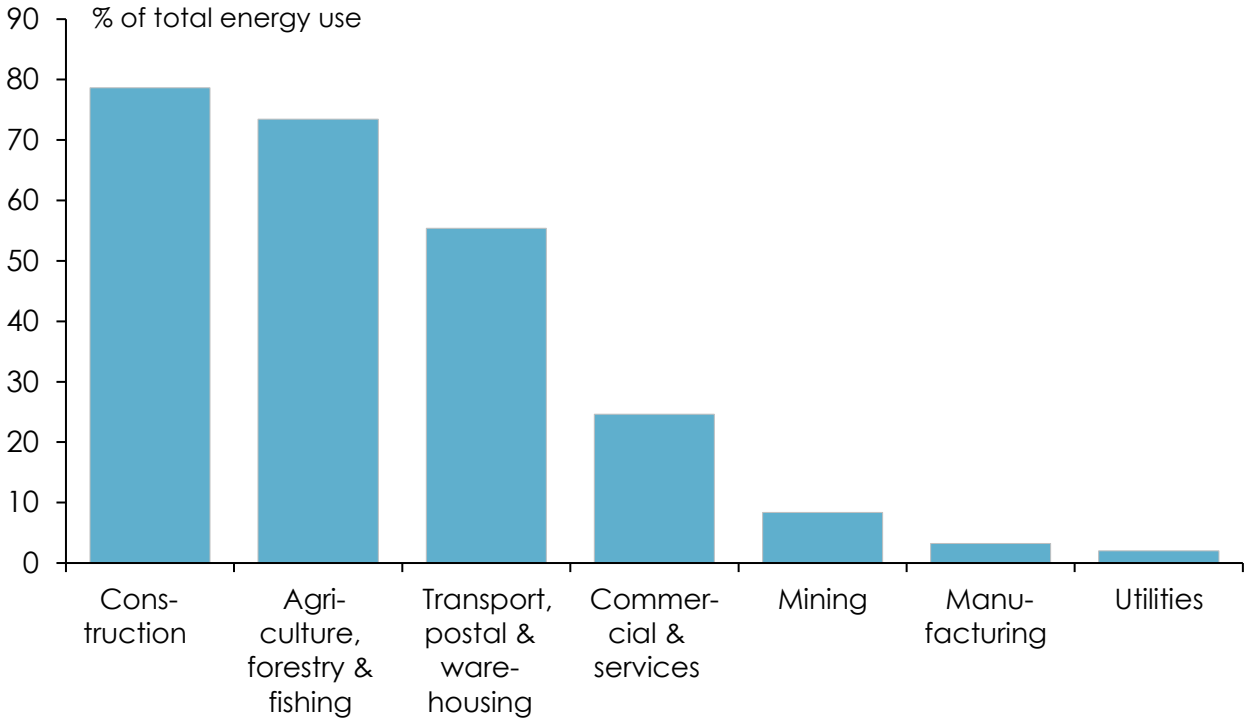
The sectoral impact of sharply higher oil prices

The impact of higher petrol prices on Australian households has been widely recognized. Australians use about 16 billion litres of automotive gasoline (petrol) a year (Department of Climate (DCCEEW 2026b). Thus, a sustained 75¢ per litre (for example) increase in retail petrol prices would cost Australian households about $12 billion a year, which is equivalent to the impact of a 45 basis point increase in interest rates (albeit spread much more widely over Australian households than an increase in interest rates, which directly only affects about one-third of Australian households).

Households account for most of Australia's consumption of petrol. Diesel is much more important in business use. However the impact of higher prices for petroleum products on Australian businesses is much more unevenly distributed across sectors or industries. Government and public commentary on the impact of higher fuel prices, and possible disruptions to fuel supplies, have for the most part focussed on the transport and agricultural sectors, for readily understandable reasons.

Yet, as shown in Chart 4, the construction sector is actually slightly more dependent on diesel as an energy input than either the transport or agricultural sectors.

Chart 4: Diesel and fuel oil as a proportion of total energy use by sector, 2023-24



Source: ABS, *Energy Account, Australia*, 2023-24 financial year .

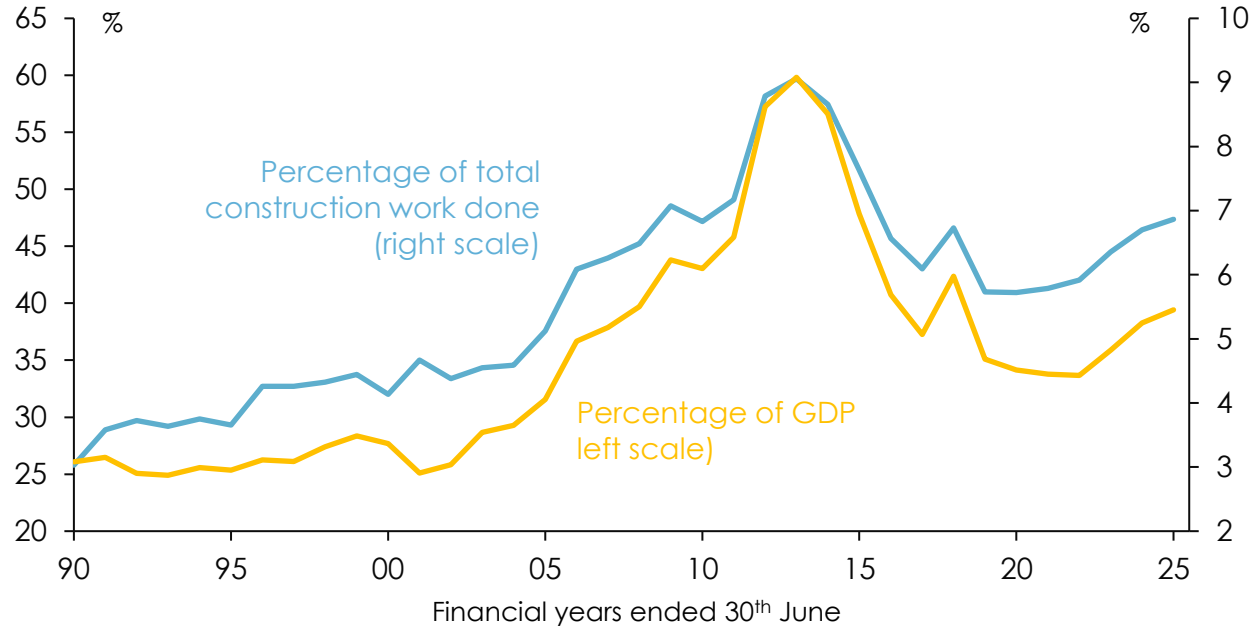
Within the construction sector, heavy and civil engineering construction accounts for almost two-and-a-half times as much consumption of diesel as the residential and non-residential building sectors combined, according to the ABS Input-Output Tables (ABS 2026c: Table 3).

The Australian civil engineering construction sector

Engineering construction – and in particular, engineering construction work on public sector projects – has become an increasingly significant component the broader construction sector as a whole, and contributor to the Australian economy over the past decade.

As shown in Chart 5, engineering construction now accounts for a larger share of total (residential and non-residential) construction work, and of Australia's gross domestic product, than at any other time in the past 35 years, other than during the mining investment boom of the first half of the 2010s.

Chart 5: Value of engineering construction work done as percentages of total construction work done, and of gross domestic product, 1989-90 to 2024-25

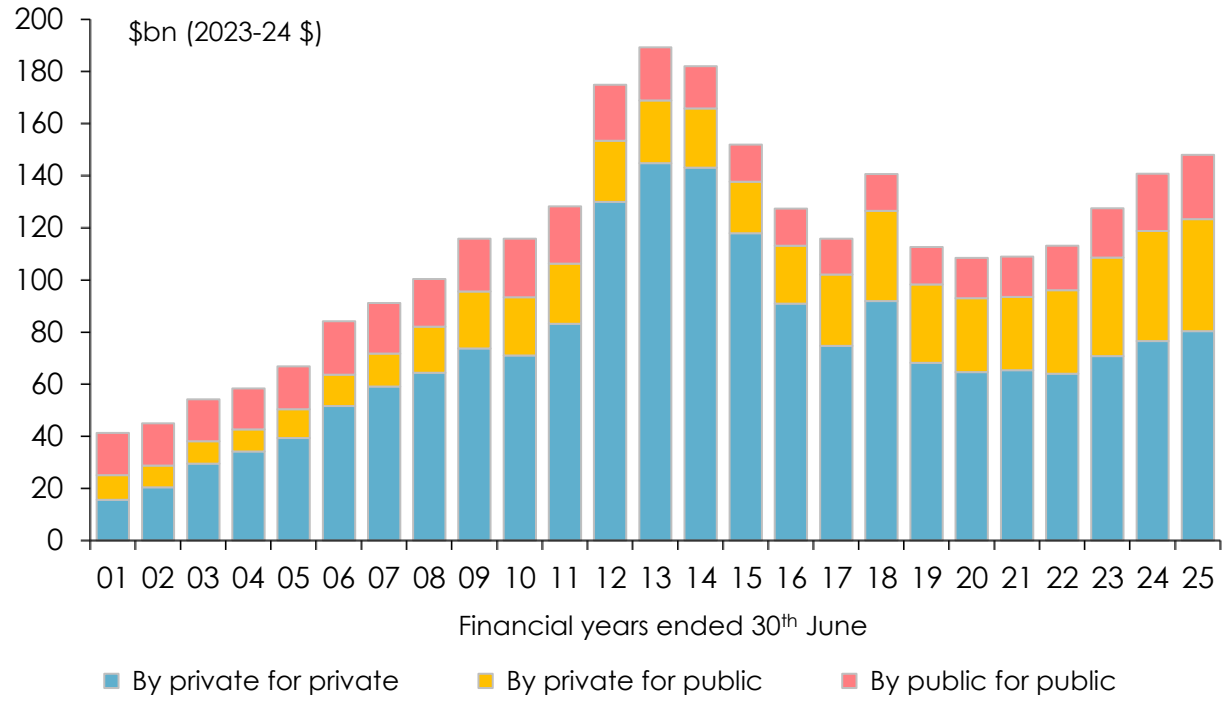


Source: ABS, *Construction Work Done, Australia, Preliminary*, December quarter 2025.

Charts 6 and 7, on the following page, indicate that an increasing proportion of the engineering construction work now being undertaken – and, even more so, of the engineering construction work yet to be done on projects which have commenced – is being undertaken for the federal, state and local governments and for other public sector agencies:

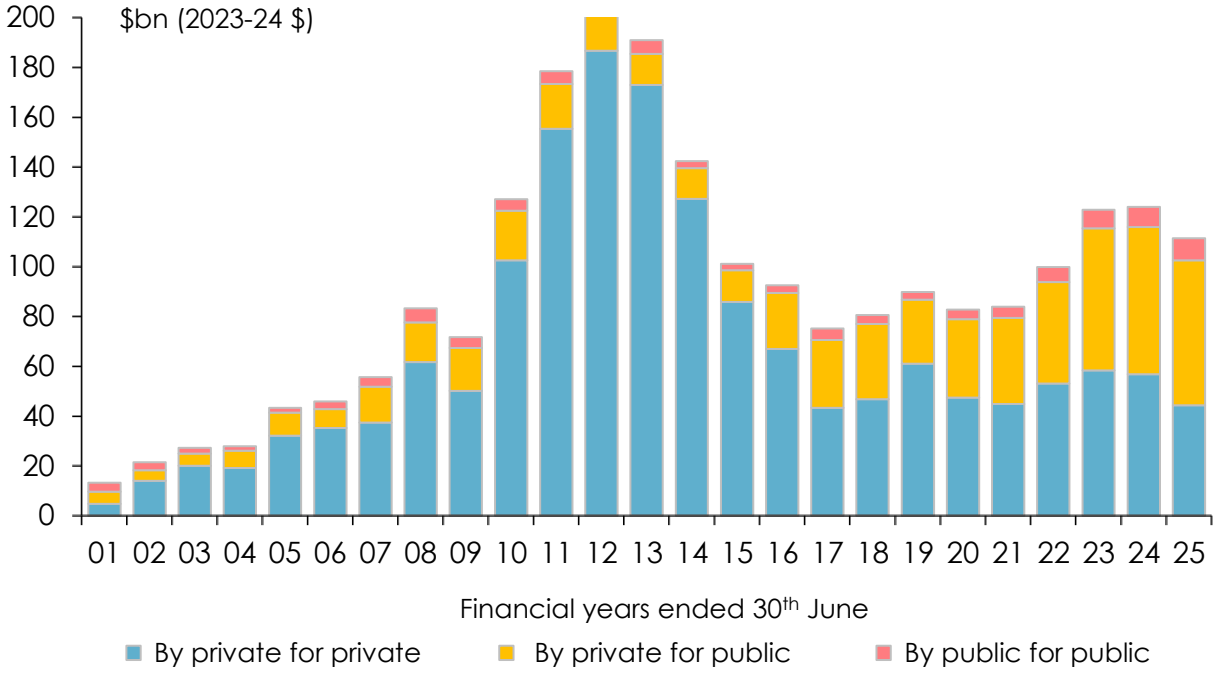
- on average over the five years to 2024-25, more than one-third of all engineering construction work undertaken by private sector contractors has been for public sector clients, compared with an average of 28% over the preceding three decades; and
- 57% of the work yet to be done on engineering projects under construction by private sector contractors as at the end of 2025 is for public sector clients.

Chart 6: Value of engineering construction work done, for private and public sector clients, 2000-01 to 2024-25



Source: ABS, *Engineering Construction Activity, Australia*, December quarter 2025,

Chart 7: Value of engineering construction work yet to be done, for private and public sector clients, 2000-01 to 2024-25



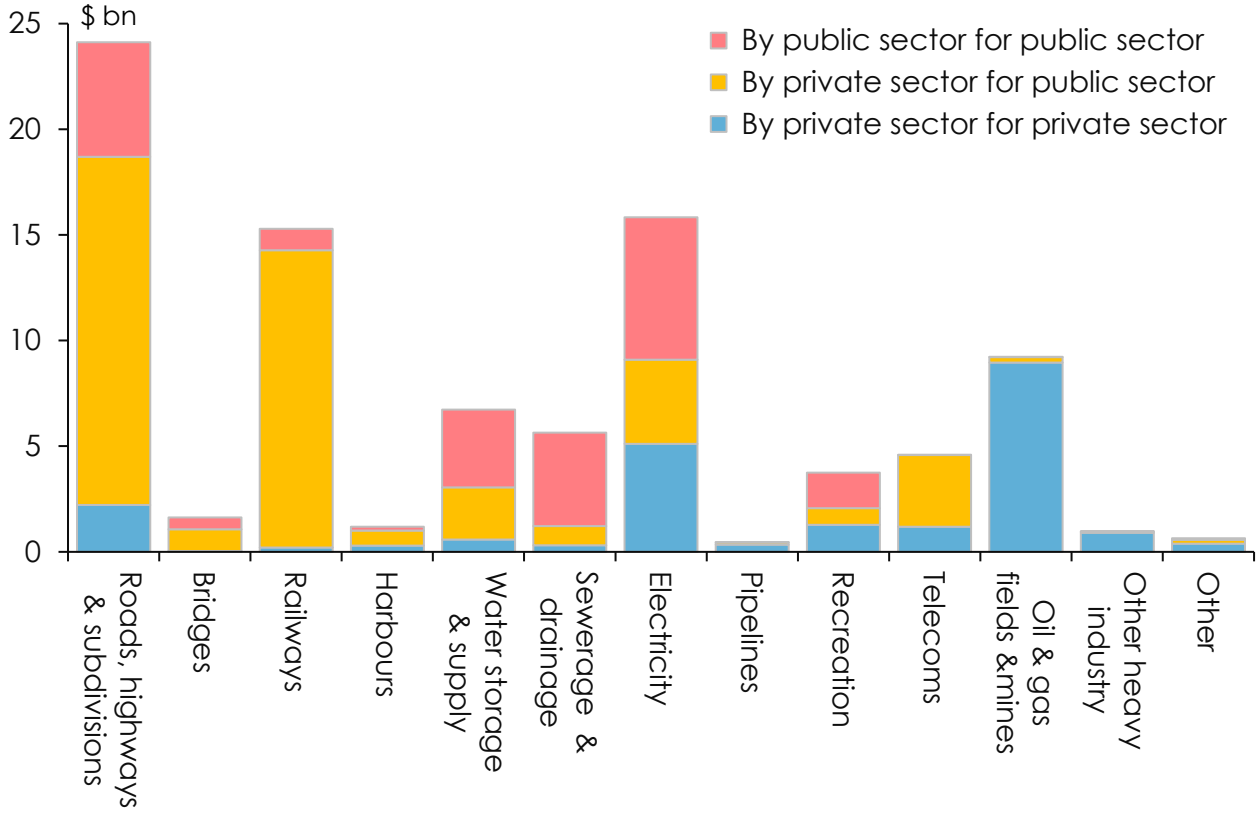
Source: ABS, *Engineering Construction Activity, Australia*, December quarter 2025.

Chart 8 shows the value of work yet to be done, on projects which had commenced by the end of calendar year 2025. In particular:

- 27% of the value of work yet to be done is on roads, highways and subdivisions, of which in turn more than two-thirds is on projects being undertaken by the private sector for public sector clients, including works essential for new housing estates;
- almost 18% of the value of work yet to be done is on electricity generation, transmission and distribution projects, which are essential to Australia's transition to 'net zero' emissions, and of which one-quarter are for public sector clients;
- 17% of the value of work yet to be done is on railway (including public transport) projects, of which 92% is being undertaken by the private sector for public sector clients; and
- 7½% of the value of work yet to be done is on water storage and supply projects, of which 37% is being undertaken by the private sector for the public sector.

In total, 67% of the work yet to be done by the private sector is being undertaken for (federal, state and local) public sector clients.

Chart 8: Value of engineering construction work yet to be done, by type of project, sector of contractor and sector of client, December 2025



Source: ABS, *Engineering Construction Activity, Australia*, December quarter 2025,

The civil engineering construction sector comprises about 10,000 businesses, employing about 193,000 people (or about 1.3% of total employment). The distribution of this employment across states and territories is shown in Chart 9:

- three quarters of the engineering construction workforce is employed in New South Wales, Queensland and Victoria;
- engineering construction workers account for a larger share of total employment in Western Australia and Tasmania than in the other states and territories.

Chart 9: Engineering construction employment, by state and territory, 2025

Sources: Jobs and Skills Australia, *Occupation and Industry Profiles*; ABS, *Labour Force, Australia, Detailed*, February 2026.

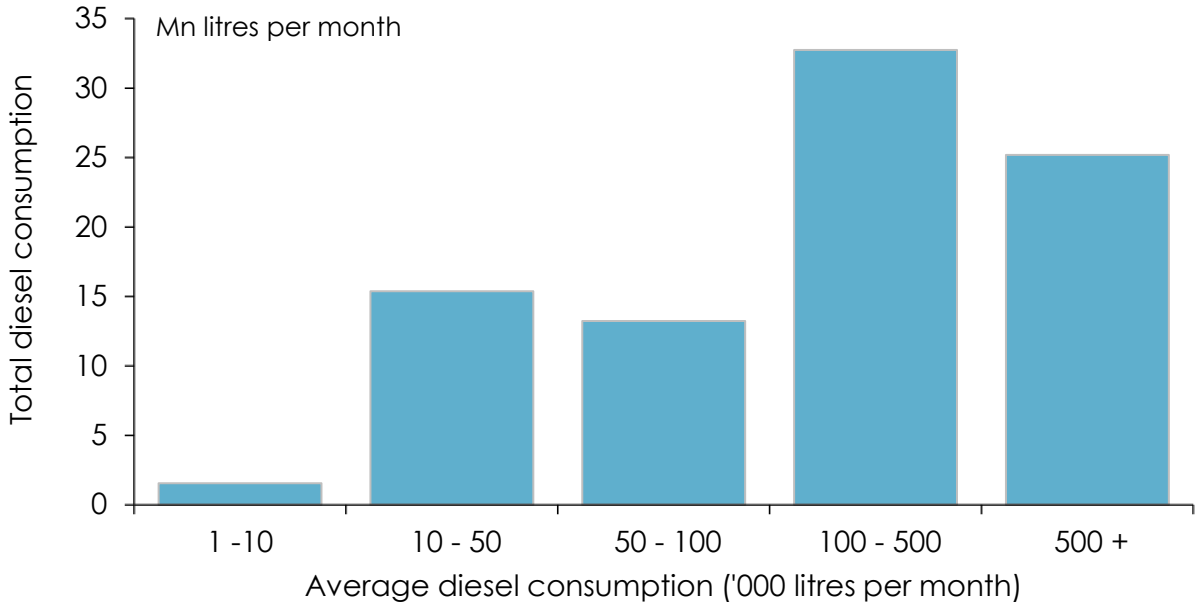
The civil engineering construction sector's exposure to the effects of Gulf War III

As previously noted, the construction sector is more dependent on diesel as an energy source than any other sector of the Australian economy – including agriculture and transport – and civil engineering is more dependent on diesel than the other major construction sub-sectors, namely residential and non-residential building.

The 1,150 member firms of the Civil Contractors Federation of Australia use approximately 88 million litres of diesel per month, with the greatest consumption being by medium-sized firms who use, on average, between 100,000 and 500,000 litres of diesel per month, followed by the (smaller number of) larger users, using in excess of 500,000 litres per month (as shown in Chart 10).

The 145 cents per litre increase in the terminal gate price for diesel since 27th February is therefore costing civil construction businesses in the order of $128 million a month – or, if it were to be sustained for a full 12 months, $1.53 billion a year (noting that a good deal of the diesel used in civil construction is 'off-road' and hence does not benefit from the reduction in fuel excise announced in the first week of April.

Chart 10: Diesel fuel use by civil construction businesses, by average use



Source: Data provided by Civil Contractors Federation of Australia based on a survey of members.

This annual figure represents 1.2% of the annual value of engineering construction work done by the private sector in 2025. Since pre-tax profit margins in the construction sector as a whole (ie, including residential and non-residential building) are typically of the order of 6% of sales revenue (ABS 2026a). Margins in engineering construction are smaller than this - around 5% on projects of around $1 million, 3-5% on larger projects up to around $ 1 billion, and 1% on projects worth over $1 billion, according to CCF.

Hence this increase in diesel prices will, if sustained and all else being equal, have a very significant impact on the financial viability of many civil construction businesses.

Moreover, although the increase in diesel fuel prices is the most obvious consequence for the civil construction sector of the current conflict in the Middle East, it is not the only one. There have also been substantial increases in the prices of many other products used in civil engineering work, including bitumen and asphalt, explosives, PVC and polyethylene pipes, electrical conduits and geo-textiles, for all of which downstream petroleum products are a significant input. Anecdotal evidence suggests that prices of many of these products have increased by between 35% and 50% since the outbreak of Gulf War III (Evans 2026, Lyndall et al 2026, Perpitch 2026).

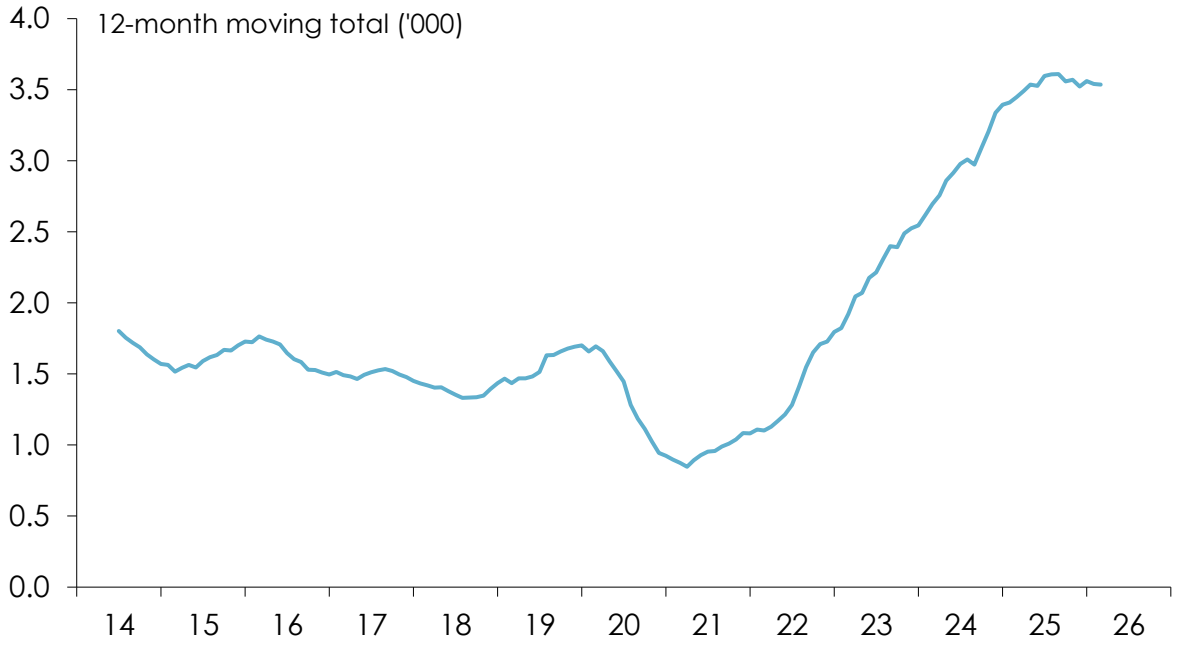
And there have been significant increases in the cost of transporting bulky construction materials, such as concrete, cement and steel, to the sites of projects.

These substantial cost increases are colliding with the preponderance of fixed price contracts in engineering construction. The Civil Contractors Federation estimates that between 80 and 95% of contracts (by number) entail fixed prices.

While some contracts do incorporate 'rise and fall' provisions, these are often inconsistently applied, of limited scope, and reliant on indices such as the ABS's Producer Price Indexes which do not provide an effective mechanism for dealing with rapid cost increases (since they are only published quarterly, in contrast to most other 'advanced' economies where analogous statistics are available monthly).

The vulnerability of construction companies to collisions between rapid, unforeseen cost increases and fixed-price contracts is evident in the sharp increase in the number of construction companies entering administration following the dramatic rise in input costs driven by post-Covid supply chain disruptions and the surge in energy prices induced by Russia's invasion of Ukraine in 2022, as well as the rapid increase in interest rates between May 2022 and November 2023 (Chart 11). Over the course of 2022 and 2023, the average number of construction companies entering administration was 90% higher than the annual average for the five years 2015 through 2019, compared with an increase of less than 20% among companies in other sectors of the Australian economy.

Chart 11: Construction companies entering administration



Source: Australian Securities and Investments Commission, *Insolvency statistics*, February 2026.

Another wave of insolvencies among civil construction businesses would seriously detract from the capacity to achieve a range of Australian Government policy objectives, including the construction of 1.2 million new homes over the five years to 2029, and achieving 82% renewable energy generation by 2030, as well as the completion of projects on Infrastructure Australia's 2026 Infrastructure Priority List. It would also undermine the infrastructure priorities of state, territory and local governments across Australia.

That's of course in addition to the potential for significant job losses.

Possible solutions

To avoid another wave of insolvencies across the civil construction sector, with the potential consequences outlined above, governments need to be conscious that the construction sector is as vulnerable to the adverse effects of higher prices for, and potential shortages of, diesel fuel and other petroleum product derivatives, as the agricultural and transport sectors.

In the first instance, should it become necessary to ration or otherwise 'manage' Australian fuel supplies, the Federal, State and Territory Governments need to recognize civil construction as 'essential' in the same way as the agriculture and transport industries, in order to maintain capacity and supply chain continuity, not least to safeguard governments' own infrastructure priorities.

Second, the Federal, State and Territory Governments should establish a consistent, practical mechanism to adjust contract values in response to significant input price movements (in both directions), which would apply to existing as well as new contracts, to enable an equitable sharing of risks across the construction supply chain.

Additionally or alternatively, governments could provide targeted, time-limited support, through established infrastructure funding channels, to agencies and project owners where abnormal input cost increases cannot be absorbed within existing budgets, in order to avoid delays, scope reductions or project failures.

Fourth, recognizing the importance of local governments in infrastructure provision – accounting for over 17% of total public sector fixed capital formation in 2023-24, only marginally less than the Federal Government's 19% (ABS 2025a: Table 339) – the Federal and State Governments should provide targeted top-up grant funding to councils to address unanticipated input cost increases, particularly for projects already underway where contracts do not allow for cost escalation.

Finally, from the longer-term perspective of enhancing the resilience of Australia's civil construction sector in the face of supply-chain disruptions and unforeseen cost pressures, the Federal, State and Territory Governments should provide clear direction to agencies that all future civil contracts include fit-for-purpose rise and fall provisions for fuel, bitumen and other key oil-linked inputs.

Conclusion

The Middle East fuel crisis is having profound consequences for Australian households, Australian businesses and the Australian economy – which in turn present profound challenges for Australian governments at all levels in alleviating short-term adverse effects on households and businesses but also in preventing serious longer-term damage to the economy, including potentially widespread insolvencies among businesses and unemployment among workers.

Australia's experience during both the global financial crisis and the Covid-19 pandemic illustrates that governments – and only governments – have the capacity to respond to these challenges with a view to ensuring both an equitable sharing of the risks and costs inherently involved, and to minimizing the long-term economic and social harm that would inevitably result from failing to manage and fairly share those risks and costs.

To a greater extent than during the global financial crisis or the Covid-19 pandemic, the civil construction sector is substantially exposed to the risks and costs created by the ongoing conflict in the Middle East, in ways that will have lasting adverse consequences for the Australian economy, and for the Australian people, if they are allowed to go unrecognized and unaddressed.

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Important notice