

**ECONOMICS AND INDUSTRY
STANDING COMMITTEE**

**INQUIRY INTO THE ECONOMIC IMPLICATIONS
OF FLOATING LIQUEFIED NATURAL GAS OPERATIONS**

**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 19 FEBRUARY 2014**

SESSION TWO

Members

**Mr I.C. Blayney(Chair)
Mr F.M. Logan (Deputy Chair)
Mr P.C. Tinley
Mr J. Norberger
Mr R.S. Love**

Hearing commenced at 10.42 am

Mr BRIAN BRADLEY

Director General, Department of Commerce, examined:

Mr STEPHEN GROCOTT

General Manager, Industry Participation Branch, Department of Commerce, examined:

Mr JOHN O'HARE

**General Manager, Marine and Defence, Oil and Gas, Australian Marine Complex,
Department of Commerce, examined:**

The CHAIR: On behalf of the Economics and Industry Standing Committee, I would like to thank you for your appearance before us here today. The purpose of this hearing is to assist the committee in gathering evidence for its inquiry into the economic implications of FLNG. You have been provided with a copy of the committee's specific terms of reference. At this stage I would like to introduce myself and the other members of the committee. I am the Chair, Ian Blayney. Next to me is the Deputy Chair, Hon Fran Logan, and the other committee member here today is Shane Love, the member for Moore. The Economics and Industry Standing Committee is a committee of the Legislative Assembly of the Parliament of Western Australia. This committee is a formal procedure of the Parliament and therefore commands the same respect given to proceedings in the house itself. Even though the committee is not asking witnesses to provide evidence on oath or affirmation, it is important that you understand that any deliberate misleading of the committee may be regarded as a contempt of the Parliament. This is a public hearing and Hansard is making a transcript of the proceedings for the public record. If you refer to any document during your evidence, it would assist Hansard if you would provide the full title for the record. Before we proceed to the inquiry's specific questions we have for you today, I need to ask you the following: have you completed the "Details of Witness" form?

The Witnesses: Yes.

The CHAIR: Do you understand the notes at the bottom of the form about giving evidence to a parliamentary committee?

The Witnesses: Yes.

The CHAIR: Did you receive and read the information for witnesses sheet provided with the "Details of Witness" form today?

The Witnesses: Yes.

The CHAIR: Do you have any question in relation to being a witness at today's hearing?

The Witnesses: No.

The CHAIR: Do you have an opening statement to make?

Mr Bradley: Yes. To you, Chairman, and committee members, thank you for the opportunity to answer any questions you may have flowing from our written submission to the inquiry and additional information subsequently provided to your secretariat. One of the main areas of expertise and responsibility in this matter is focused on the local industry participation branch within the Department of Commerce. While the branch's traditional role is the promotion of local industry participation, it also has a function of reporting to government on the relationship between the local supply industry and global resource companies, including identifying trends with that relationship

and their implications. In recent times one of the key trends in this context is the advent of a range of international technological changes in both areas of equipment procurement and management approach. These have altered the relationship between the state's supply base and the major proponents in terms of the ability and competitiveness to supply. Examples include module fabrication, remote and automated management, the introduction of global supply arrangements, and FLNG. We are not saying that these changes should or can be resisted; what we are saying is that they have very significant implications, and we have responded as best we can to outline the implications, as per the terms of reference for construction, metals, fabrication, and engineering and design. The conclusion we reach as far as FLNG is concerned is that the implications are largely negative in the construction phase of major projects and the positives are untested and largely unspecified as they are general in nature for both economic and social benefits.

FLNG is a trend that was initially presented as something that would be devoted to small, isolated deposits that were uneconomical to develop through conventional onshore processing. It has been stated that there are two reasons for FLNG—that is, for the cost or that the resource is genuinely stranded. The concern is that once this technology has become accepted as the norm, future projects will not consider onshore processing as a viable option, even when the economies of scale allow it to be viable.

The main discussion from industry at these hearings has been about the economic viability of FLNG rather than the benefits to the state. There is a basic change in the relationship between state government and industry in terms of benefits to the state, and therefore this needs further consideration at both the state and federal levels. Time is critical as it takes time to develop the appropriate policies and infrastructure to ensure local industry can respond in a meaningful way. The operational phase is one opportunity that we need to ensure to provide capacity and capability for the full benefit to the state. Thank you.

The CHAIR: Thank you very much. Who would like to lead off?

Mr F.M. LOGAN: I would like to, Mr Chair. I will read this question out to you because it is a little bit longer than a normal sort of off-the-cuff question. It goes along the following lines: the committee understands from a 1998 Productivity Commission report that Woodside defines “local content” as “the calculated level of participation for those items that could be procured or undertaken in Australia”, which seems a very narrow definition of “local content”. Does the department have a standard definition of “local content” for companies to report against; and, if not, are you aware of the definitions used by the various resource companies that report to you and what impact does that have on the usefulness of that data?

Mr Grocott: Can I respond to that? Woodside, along with many other energy and mineral companies, has local content reporting obligations under agreement acts. They are generally known as the local content clause. Yes, we do have a standard definition for what constitutes Western Australian content, and essentially that is the percentage or value portion of the contract that is generated within the boundaries of the state. So that differs significantly from Woodside's definition. If I could just give you a little bit of background on this question of local content and local content reporting, the industry participation branch only assumed responsibility for the administration of this clause in agreement acts in 2005. The reason we assumed that responsibility is that there was a critical report by the Office of the Auditor General on administration up to that date, which included concerns about lack of clarity as to what constituted local content, variations in the format of reporting, variations in the period of reporting, and failure to respond to the reports to the extent that some companies had ceased to produce reports because they were not acknowledged. Clive Brown, who was the Minister for State Development at that time, responded to that report by, as I say, transferring the responsibility—it was you?

[10.50 am]

Mr F.M. LOGAN: Yes, in 2005.

Mr Grocott: Okay; I defer. Anyway, we then spent the next couple of years working with companies to establish a common definition and understanding of what was required; a common format; and a common reporting period, which was three months during construction and annually during the operational phase.

Mr F.M. LOGAN: Thanks for explaining that to the committee, Stephen. Can I just ask about the second part of the question about the usefulness of the company's data and its provision of that data to the state. What we know is that at least we have two definitions. We have got the definition that you just described, which clearly is trying to identify the overall benefits to the state of that particular project or whatever —

Mr Grocott: Yes.

Mr F.M. LOGAN: — and then you have got the company's view of what it means by local content—that is, Woodside's view. I am sure there is a whole series of different other views from other companies and what they define as local content. How do you marry the fact that there are two completely different definitions for local content and, therefore, what benefit would be the company's provision of data to the department, given that it has a completely different idea of local content from what you do?

Mr Grocott: The definition you have quoted is from 1998, so that is quite a while ago. I would have hoped, given the work that we have put in since 2005, that there is a generally accepted and understood working definition of "local content". I would be disappointed to discover otherwise, given the amount of time we have spent with individual project proponents so that they can structure their financial management information systems and their contract management systems and, indeed, their tender documentation so that they can capture the information in a format that we require.

In terms of the usefulness of these reports, this is something that has occupied our minds for the last couple of years because, of course, these reports are after the event and, indeed, during the operational phase they could be as long as 15 months after the event. We regard the local content reporting as macro indicators and nothing else. As macro indicators, they are able, for example, for offshore energy to indicate general trends, and we all know what has happened offshore; Woodside reported up to 72 per cent local content, I think, for train 4, and since then we have seen a decline to about 45 to 55 per cent during the construction phase. But even in the operations phase for offshore, you are looking at a reporting level of about 85. So, to answer your question, member, in terms of what we use it for, we use it to identify macro trends and to ensure that general levels of local content are maintained within specific industries. We have informal benchmarks. We expect somewhere between 75 and 85 per cent for iron ore, for example, and, as I say, 55 seems to be the maximum that you would anticipate during an onshore project in offshore oil and gas.

But if you want to take the issue further, you have got to move beyond these reports, and there has been, I think, something of an obsession with a single KPI, which is the level of local content during the construction phase. We have actually amended the reporting so that we try to capture additional benefits other than direct participation—so, things like research and development, support for Indigenous business, community grants, that sort of thing. That is providing, I think, everyone with a better picture of the net benefit in its entirety. But the key thing we are interested in is not so much the outcome—the successful outcomes—but as to why WA and Australian companies were not successful. A lot of that success is not even at the tender stage; a lot of that success is at the pre-qualification stage. Through the Wheatstone local content steering committee, for example, Chevron has told us that something like 65 per cent of Australian companies failed to pre-qualify. That is a pretty damning statistic. We have spent time trying to investigate why that failure rate is so high, so we are trying to move beyond local content reports as anything other than, as I say, macro indicators.

Mr R.S. LOVE: Perhaps you might just explain what the consequences are for a company that fails, even in the reports, to exhibit any commitment to local content. Does that in some way attract any penalty or is there just an expectation that next time they go for a referral, it might be more difficult?

Mr Grocott: These are acts of Parliament and we administer them as acts of Parliament and there is no provision within the act for penalties. If we have situations where companies are reluctant to cooperate—I have to say they are very rare—we rely on persuasion and, if necessary, the Premier, as the Minister for State Development, and they will get a letter and perhaps even a phone call from the Premier saying, “You’ve made this commitment through an act of Parliament; you are required through that act to report and you are required through that act and the wording of the clause to provide full, fair and reasonable opportunity for local industry to participate. We need to see evidence of that.” Without naming the company, there is only one example that comes to mind where this was an issue, and this was a newcomer to Western Australia; they were not used to the Western Australian way of doing business. But between ourselves and the commonwealth, it took only a couple of months of meetings and persuasion for them to change their business model.

Mr R.S. LOVE: Just recently there was an article in the paper about Prelude and that 80 workers would be needed to build support vessels for the Prelude project.

Mr Grocott: Three tugs, yes.

Mr R.S. LOVE: So, those vessels apparently were made overseas; those 80 staff are only operational. Do you view that as actually counting towards local content for the project?

Mr Grocott: The value of local content would be the proportion of the contract, by value, which is performed within Western Australia. So certainly, as you say, it would not include the construction of the tugs or the design of the tugs. Once the tugs are delivered, commissioned and operating here—because this will be a long-term contract during both the construction phase and the operational phase and we assume that 80 represents the crewing and the support to the tugs—legitimately that can be claimed as local content. But certainly the up-front construction is probably going to take place in Singapore.

Mr R.S. LOVE: So there is no capacity to build those vessels in Western Australia.

Mr Grocott: The last tug built in Australia was about 15 years ago.

Mr F.M. LOGAN: Stephen, that is not quite right. The last tug was built only about eight years ago, and it was built in Henderson. There are still companies that would love to be building those tugs.

Mr O’Hare: There are companies that would obviously love to build them, member, but it is quite unusual, as you mentioned, lately for tugs to be built in Australia and Western Australia.

Mr F.M. LOGAN: Only very recently, all tugs, particularly for iron ore movements and offshore oil and gas, apart from the supply vessels, were built in Western Australia and Australia, and there are companies still looking for work in doing that. They still have the capacity and the capability of doing it.

Can I just come back to that issue, Stephen, and just say what does the minister or the department say when Shell have gone out and publicly reported that they are delivering on their local content commitments by delivering a contract for three tugs to a Western Australian company, and that is just not true?

[11.00 am]

Mr Grocott: Shell does not have an agreement act for Prelude. Last year we were talking to Shell about establishing a local content round table for Prelude. We went through quite an extensive series of meetings to establish terms of reference and membership. I notice in the transcripts of

evidence presented to you that it has been suggested by Shell that that local content round table is actually meeting. That is not factually correct. We have been told that the round table is on hold due to staff shortages. When we saw the announcement in the paper about the tugs, we contacted the company, because we were interested in the process by which they were awarded and the concept of this being a commitment for local content. Within half an hour of talking to the company, we got an email from Shell saying, "Please don't contact the companies that have been awarded contracts by ourselves; please enter into dialogue with us." We said, "Okay; fine. We'll do that, and here's what we'd like to know" and they said, "We'll get back to you next week."

Mr R.S. LOVE: That goes to the point about how you actually enforce these so-called policies.

Mr Grocott: As I say, you have not got an agreement act. This is in commonwealth waters, as you know. The commonwealth, if I can be so bold, has not exactly been active on the issue of Australian industry participation in FLNG.

Mr F.M. LOGAN: Because you are coming back to the state agreement acts and the local content clause, that is not new. They have been around since —

Mr Grocott: They go back to the 1950s.

Mr F.M. LOGAN: That is right—since state agreement acts have been used in Australia. I thank you for providing to the committee the advice about the Auditor General's report and then the response by the department to the Auditor General. Can you now explain to the committee: what is the process by the department for monitoring those local content provisions in each state agreement act, are all companies reporting as they are required to under the acts, and what is the process within the department for dealing with those reports when they come out?

Mr Grocott: To answer your question about reporting, we have at the moment somewhere around about 24 active projects covered by agreement acts. While we experience perhaps a delay now and then of a month, by and large everyone is reporting and they are reporting on time. What we do with those reports is we analyse those reports line by line. I appeared, I think, in 2011 in front of the Public Accounts Committee and Hon Ken Travers asked for evidence of the diligence with which we administered this in terms of queries that we go back to the companies with, and I am happy to provide the same to this committee in that form if you wish to see it. There are two forms of question we might query and what seems to us, based on the benchmarks which exist, an unrealistically low or high level of content against a particular contract, or we may query why a contract has been awarded in the eastern states or overseas, again, against benchmarks and generally held expectations. We are a member of the Gorgon local content steering committee, which meets quarterly and considers those reports in a more formal fashion. I chair the Wheatstone local content steering committee and the Browse local content steering committee. Wheatstone are reporting to us, although they do not have to because they are not bound by an agreement act, and Browse, as you know, are in the basis of design, so we have still got to work it out with them. But the minister received a letter from them yesterday saying, "We are looking forward to working with the department on local content issues through the committee, including with writing reports."

The CHAIR: Can I go back to the tug issue? If you like, Shell's commitment to local content extends to asking local companies to tender for that job, but would it have flowed through further to the company that got the contract? Would they have had any commitment, given that the company down at Henderson can make tugs for them, to be able to tender and know that that job was about, or is that company basically free to buy its tugs wherever it wants to?

Mr Grocott: These are advanced state-of-the-art tugs that are quite specialised in nature. They would have an established supply chain. They would have pre-qualified their subcontractors. They would argue it would be unrealistic for a one-off order to disrupt standard procedure, particularly in terms of timing, and to go down that route. I am not across Shell's local content approach on

Prelude. Basically, the communication between ourselves and Shell ceased in about September last year.

Mr R.S. LOVE: You said earlier that it was a shocking situation that so many Western Australian companies were knocked out in pre-qualification arrangements. Do you think that that in any way is an artifice to ensure that local content does not need to be considered on occasions by artificially putting barriers in place for Western Australian companies? One of the things that has been brought to us by industry and various groups is that difficulty, as you just touched upon, in breaking into this established supply chain. Frankly, as Western Australians, I do not think we give a monkey's whether it is difficult for the company to change its established practices. We have a resource that we would like to see developed using Western Australian content as much as possible. That is not really a consideration that I would think that you would put a lot of store in. Could you explain your view on those supply chains and the difficulties of not actually qualifying?

Mr Grocott: I think, if I can describe it this way, that we are witnessing a widening cultural gap between the way the project proponents conduct their businesses and the way suppliers operate. We are seeing groups like Chevron and the iron ore companies place an increasing emphasis on issues like occupational health and safety, quality management and paperwork and reporting. For some of our companies that are used to doing things in a more straightforward manner, this is something that they find difficult to come to grips with. We are trying to address that in a positive way through a program called the industry facilitation and support program where we provide funding support to suppliers to upgrade their capacity and capability to project proponents but the project is developed in consultation with the project proponent. So, the project proponent says, "You need to upgrade your vehicles so you can get access on site" or "You need third party accreditation" or "Your occupational health and safety manual needs updating." We can help fund that. In fact, we are in the process of a second round of this program co-funded with Chevron. We are in the process of negotiating with Woodside because it can be a win-win situation.

To go back to your question about pre-qualification, Wilson Transformers in Victoria is the only company in Australia that has pre-qualification to supply to Chevron outside of Australia. It is not even global; it is in the Asian region. It took them over a year and nearly \$1 million to achieve that accreditation—that pre-qualification success. They are not erecting unnecessary barriers. They do not really have to do that. The Technology and Industry Advisory Council report, which is up on their website, was an independent research project on what can be done to optimise involvement by SMEs in projects. If you go to the recommendations, it is all about communication. If you apportion responsibility for communication, the recommendations are about 70 per cent SME and about 30 per cent project proponent.

Mr F.M. LOGAN: Can I just ask a question about those pre-qualifications required by major oil and gas companies. Do you think that same level of pre-qualification will apply to the companies they are dealing with in Indonesia, Thailand, Vietnam and China?

[11.10 am]

Mr Grocott: They tend to deal with their tier 1s and tier 2s—the Bechtels and the McDermotts and so on. They take responsibility. That is how they deal with that. We do not have that intermediate tier 1 company that can take responsibility for the subcontractors. Here, you have got them dealing direct; that is the difference. I do not know. We sent people over to look at yards in Korea and China when they were investigating the future of the steel fabrication industry. They came back quite impressed. We all know the stories about rework and shoddy stuff and so on and so forth. It is a very mixed message. We do not have the expertise to answer that question for you at this point.

Mr F.M. LOGAN: Thank you for answering it that way. Those tier 1 companies that take all of the obligations on from the principal of the contract, rather than our companies who are then tiny compared to the tier 1 companies attempting to do that in the same process, exist in Western Australia—I mean, the Bechtels.

Mr Grocott: Bechtel does exist here, but as an arm of Chevron. It is almost interdependent. Its main headquarters are in Queensland.

Mr F.M. LOGAN: That is true, but the tier 1 companies take that responsibility. You say you do not know whether they require that pre-qualification standard in their yards in Asia—Indonesia, Vietnam and Thailand. They exist in Western Australia but they do not exist for the purposes of taking responsibility here and running the project out of Western Australia or Australia.

Mr Grocott: The reason for that, I think, is that they have set up international marketing arrangements. They have set up package deals—design, construct, install, manage—that exclude Australian and Western Australian companies. The extent to which they have considered the cost competitiveness and the capabilities and capacities of Australian companies, you would have to take each tier 1 in and interrogate them about that.

Mr F.M. LOGAN: Do you think it is a case of companies awarding contracts to themselves overseas?

Mr Grocott: I cannot answer that.

Mr F.M. LOGAN: It is a possibility, though.

Mr Grocott: It is always a possibility but it is not something that we are aware of.

Mr R.S. LOVE: Given that the tier 1s do not exist and that is the reason people do not get pre-qualifications, it is hardly a shock that they do not get pre-qualifications, so I do not quite understand why you said that in the first place. You are in charge of the industry participation branch. If you have identified that as a shortfall in Western Australia, and that is the problem and that is why people are not plugging in, what strategies have you identified to overcome that?

Mr Grocott: What we are trying to do is at the micro level—the individual company level. In the last two years, we assisted about 150 companies to initiate projects designed to enhance their attractiveness to resource projects. We asked those companies to report six-monthly, 12-monthly, 18-monthly and we started to get the majority of companies reporting for six months. For an expenditure of about \$2.5 million of state funds, we have had reported contracts of over \$150 million acquired. That is how we are trying to deal with it at the individual level. What I am talking about with this tier 1 stuff is that these are global companies and they go to the project component and say, “We have a great package deal for you. This is where the design will be done. This is where the steel will be supplied from. This is where it will be fabricated. This is who will do the installation and the servicing.” When we looked at the steel fabrication industry in modular construction because that is now very much the trend offshore, there are limited capabilities and there is a comparatively limited track record on large modules. We conducted that investigation in conjunction with the Australian Steel Institute. The Australian Steel Institute accepted the recommendations. Those recommendations said that for offshore construction, apart from niche time-sensitive competitive advantages for our own location, forget it; the best opportunities lay in the operational phase. What we tried to do in response to this global supply chain is sit down with all parties and try to achieve a common view of the future role that the supply industry can play in relation to that project proponent. We have done that for steel fabrication and we have done that for engineering design. We cite those studies in our submission.

Mr F.M. LOGAN: Just picking up on that point, I will turn to John because it is his responsibility. That is not quite true to say that we do not have the capability, otherwise you would then have to question why the hell we put \$400 million into the Australian Marine Complex, which has 10 000-tonne load-out wharfs and the ability, if you wanted to, to make a space rocket, never mind oil and gas modules, with the equipment we have down there. To actually talk down our capability by saying we do not have the capability or the equipment to do it is just not true. I will let John answer that because the Australian Marine Complex has the capability of doing anything and putting it across the wharf and sending it up north. Is that true, John?

Mr O'Hare: There is significant capability, as the member is aware, in industry at the Australian Marine Complex. The Australian Marine Complex, for the members who are not aware, was created as a result of and coming off two reports. The first one was a federal government report to the Senate called "A sea of lost opportunities?", which highlighted that Australian industry was not, if you like, receiving a fair share of projects coming out, particularly of the oil and gas industry. That report was in 1989. Some 10 years later another report was produced called "A sea of indifference", which basically stated that nothing had occurred in that decade between the reports. The Western Australian government also commissioned, at the same time, a report on the Jervoise Bay development. Armed with those three reports, the Western Australian government commissioned the creation and development of the Australian Marine Complex, and that was to assist Western Australian and Australian companies to actively participate in major projects. That was the reason it was created. Its success has been, again, that primarily the private sector companies have invested in capability to undertake work in the marine, defence and extractive resource industries. If you like, where the rubber hits the road—compared to what Steve does—it is there to assist Australian companies to participate in these projects by providing capability on a project cost basis, rather than themselves in terms of their capex. The common-use ethos of that was developed by the state—it was the first of its kind in the world—and the, if you like, how to operate it and how to work with industry to maximise it was the creation of the state.

Mr F.M. LOGAN: John, from your experience—you have had vast experience down there from the concept of the AMC through to its current success—would you agree with the statement I have made that it has the capability of doing most offshore oil and gas work? Because if you remember, John, the design of the AMC was for modular development; it was not built for stick work, it was designed for modular design.

[11.20 am]

Mr O'Hare: It was designed for modular build. Again, as the member is aware, it is the capability, if you like, resident within the AMC, but it is the private sector companies that utilise the AMC that have the skills and capabilities to maximise the common-use infrastructure to bid for and win projects. You are right, it has been a success. We will be celebrating the tenth year of that success early next month with an event down there that Minister Mischin will be addressing to highlight the positive results that AMC has had over the last decade.

Mr F.M. LOGAN: The irony of what we have just been discussing, unfortunately, is that the yard is now full of Gorgon modular equipment that has been brought in from overseas for various work, and also to reassemble that work before it gets shifted up north in larger components. But, unfortunately, it was not fabricated there in the first place.

Mr O'Hare: The committee has been through Civmec, which again is a very good example of the private sector putting its money into fabrication and services at the AMC. As well—as Stephen mentioned—as the industry is moving away from its construction to its operational phase, you are starting to see investments down there such as AME, which has just taken over the old Oceanfast site to look at, if you like, supporting the Woodside development. What we are seeing and where we are really, if you like, trying to start to focus on is the opportunities coming out of it through life support and maintenance of these assets.

Mr F.M. LOGAN: I just want to ask one question about, again, the AMC. Page 8 of your submission stated that there is an ability for the state to extend the floating dock at the AMC and incorporate stage 2, which basically provides in the region of 16 000 tonnes' lifting capability. If it was approved, what new opportunities would that create for industry and the state?

Mr O'Hare: Stage 2 would primarily look at supporting oil and gas-type vessels. As the member and the committee are aware from the briefing we gave, the dock was originally designed to be a two-part dock. The two-part dock would have the capability and capacity to dock an LHD, which are currently being built for the Royal Australian Navy. When the decision was made by the

commonwealth government that they would be built in Spain, the then government, rather than remove completely the build of the dock, split the dock into two and dock 1 was built. Dock 1 originally had one customer, which was the Royal Australian Navy, through the Defence Materiel Organisation. The majority of the work that is undertaken on dock 1 is commercial work, primarily supporting the oil and gas industry. If dock 2—and it is a long shot; it would be very expensive and there are no plans to do that at the moment. It would be primarily, again, supporting the oil and gas industry. As to dock 1, we had an agreement that the dock has to be ready for an emergency docking of submarines. What that means is that we are a little limited because we cannot actually pull a propeller or work on a vessel in the dock because if we had cut the hull or pulled the propulsion system out and there was an emergency docking, it is not a good position to be in. The second dock would remove that, if you like, barrier and enable us to undertake further work on the dock itself.

Mr R.S. LOVE: I have heard the story of how difficult it is to plug into supply chains and the lack of those big players in engineering being here to actually enable that to happen. We have also been consistently hearing about the possibility of Perth developing as some sort of a gas centre of excellence. I am just wondering what your views are of that, especially with the change to FLNG, you are probably seeing less and less local content in production operations. It is difficult for me as a layman to visualise that you are going to have a significant part of operational activities when technology is designed overseas, it is floating offshore and it is being serviced from Singapore. How do you see this promised development of Perth as a centre of excellence being achieved, and what do you think that might do to actually improve industry participation in the industry in Western Australia local content?

Mr Grocott: We have heard terms like “oil and gas hub” and “centre of excellence” thrown around now for decades to the point where it really has become meaningless rhetoric. Having read the transcripts of this hearing, it is being offered as a palliative; as the substitute for the loss of the substantial benefits that would normally apply to an onshore operation not only in terms of the actual construction of onshore plant, but the construction of social infrastructure and the deals that were being negotiated with local community groups such as around James Price Point. Yes, the University of Western Australia might get a bit of funding to do research on extraction technology or an assessment of the surface of the seabed, but, no, we cannot put any specifics in place when it comes to terminology like that.

Mr R.S. LOVE: Some of the people giving evidence have spoken of it being not just a centre of research but also a place where people applying technology may come from. Would that help to break that missing layer in Western Australia in terms of enabling or encouraging larger companies to actually establish themselves or establish a branch here that would then enable Western Australian industry to tap into the supply chain of these companies?

Mr Grocott: You have heard evidence from General Electric, which I thought was quite effective in explaining their rationale and what they are doing here. In the local content reports that we, through our minister, present in May and November each year, there was mention some time ago about the number of companies that have worked through the Foreign Investment Review Board to establish in Western Australia in the oil and gas sector, but these are specialist companies that have carved themselves a global niche in the market. They have come here because a portion of the market is here. It does not necessarily mean that there is going to be any spin-offs. There may be some skilling opportunities and employment opportunities, but it does not necessarily mean that there are going to be linkages in. These tier 1 companies are global companies that have been operating for decades. They have made assessments about the best place in which to operate and the best place in which to form their marketing arrangements. For example, I think it was Samsung that came down here at the behest of Chevron and had a look at local capabilities and capacities to subcontract up back to the Korean yard for some of the Gorgon modules. Unfortunately, their assessment was: costs too high; experience, by world standards, not great. They actually awarded, I

think, four contracts in the eastern states but not at all in WA. You have to remember that we are dealing, as a global economy, with international benchmarks. If we are not up to those international benchmarks, then they are not going to be interested. That is their philosophy.

The CHAIR: Let us say if we had this beast they keep talking about, the centre of excellence or whatever you want to call it—is it a hub or something?

Mr R.S. LOVE: I think even the Prime Minister has been talking about it lately.

Mr Grocott: It is a great term.

The CHAIR: Would that help to get our players up to an accredited level?

[11.30 am]

Mr Grocott: It has become such a meaningless, broad term that it is hard to answer that question. Under the previous government, there was a proposal out of the industry and innovation white paper to establish through Woodside, in partnership with a very significant number of companies, universities and industry associations, a precinct operating out of the AMC. That would have gone a long way to dealing with this communications issue and dealing with this issue of shared vision. We understand that it is probably on the backburner now. That is not official; but that is just a discussion we have had with our counterparts in the commonwealth Department of Industry. That would be a centre of excellence. There were incentives that required government to be involved. A centre of excellence is not just going to hatch out of an egg. One of the things in the McKinsey reports that have been quoted so extensively by the project proponents—which they have not really mentioned—is the need in the recommendations in these reports to adopt a model like Norway or the UK where you have a shared vision between government, projects, labour and academia. They noted in here that in the Australian model you do not even have cooperation between the project proponents. We found that with the iron ore industry when we were talking about future requirements for steel fabrication capacity, they had not talked to each other. We found that when we talked to the oil and gas industry about the future of engineering design, it was the first time that Chevron, Woodside and Shell had been in the same room with APESMA and Engineers Australia. I do not know what a centre of excellence is until everybody that is involved in it gets together and agrees. As I say, the Woodside thing looked very promising. It is the most concrete example in 10 years of rhetoric, but it would need long-term commitment.

Mr F.M. LOGAN: This is an article from yesterday's *The West Australian* talking about the Scottish companies when they were setting up a shop here in Western Australia. Those that have set up shop in Western Australia have increased their contracts in oil and gas projects by 31 per cent to \$1.35 billion over two years. The article refers to Scottish Development International, which is a government department that has actively pushed the Aberdeen-based engineering companies out of Aberdeen to aggressively pick up work here in WA, and I presume other places as well, but particularly here. As SDI indicated, they were focussing on Perth.

Mr Grocott: John and I both met with them.

Mr F.M. LOGAN: What are they doing right that we do not do?

Mr Grocott: They are hungrier. They have that alliance between industry, government and union. They have a track record of success. It boils down to hunger. It boils down to going out and chasing the market and being prepared to respond to whatever the market requires of them. When we have talked to Woodside about, "How do you want your engagement with SMEs", they would inevitably say—and Colin Beckett, who chaired the working group that produced that report that I referred to from TIAC said the same thing—"Give us an innovative solution to a problem. Do not expect us to come to you and say, 'We'll buy that.' Understand our business model. Understand our issues and then provide us with the response. Then we will be interested and then we will champion your cause within the company."

Mr O'Hare: If I could add to that, historically the department has had very good links with SDI—Scottish Development International. In fact, yesterday I had one of the head and oil gas guys for the region and two others down at the AMC. They are well aware of the AMC and in fact, the capabilities of the AMC are something that they expressed an interest in. Again, yesterday, as part of Australasian Oil and Gas, of which the department is a principal sponsor for a variety of reasons—one of which is to assist Western Australian and Australian companies to meet with the majors. It is a soft approach but we are a sponsor principally for that reason. One of the initiatives that we have developed this year in conjunction with the federal government and the event organiser—Diversified—is the Australian Industry Zone which is, if you like, a first. We had that co-located with the AMC stand and the first thing we did there was to get 14 SMEs or innovative companies and showcase their capabilities to an international audience including, obviously, the Scots. For the committee, AOG starts today and it is on until Friday. As I mentioned, the department is one of the principal sponsors of that for a variety of reasons. It enables us to bring the oil and gas world to Perth and enables us as an agency to not only promote the AMC, but assist in promoting Western Australian capability.

We do that in a number of ways. Obviously, as a principal sponsor I sit on the committee that looks at the themes of the conference. Last year, for the first time, we put Australian industry participation on as a theme. It is very pleasing to report to the committee that that had the greatest number of delegates. We had industry people speaking at that and on how to do business. The other one that we help to drive is marine logistics. We look at both the AMC and the proposed Pilbara fabrication and services common-use facility. There are a few opportunities coming through. The support of these projects as they move forward is a thing that we are doing. This year, for the first time, we have productivity on there. I am also pleased to report that I worked with Shell and we had Andrew Smith as the country chair speaking at a plenary session this morning. That has just finished. We also had Minister Marmion saying where the state is coming from.

AOG is important for us; it enables us to link with the Scots and create good relationships with them. Yesterday I addressed over 100 people from their international delegations. This was in conjunction with the Department of State Development, the Wood Mackenzie Group and Woodside where we highlighted the opportunities and what Western Australia has on offer. As Steve said, the Scots are quite hungry. If I can take the committee a little further back, I mentioned a sea of lost opportunity. There is another *The Sea of Lost Opportunity*, written by Norman J. Smith in 2011. This indicates from a UK perspective how they did not do as good as Norway. The read is as dry as the Sahara but it is a very interesting read from a policy point of view as Norman Smith headed up the UK oil and gas office. It highlights some of the mistakes that were made by the UK in terms of its ability to capitalise on the North Sea—particularly vis-a-vis the Norwegians. If you look at the Norwegians; there are 5 million Norwegians. Then go down to AOG and look at the technology that nation has produced for the oil and gas industry. Look at the companies that they have created. Yesterday, in fact, the presenter for the Wood group was saying that it started back in 1978 with one guy in a garage and it now has 2 200 people. If we, as a nation, are going to grow, we need to start to find those people in their garages and grow Australian capability so that in 20 or 30 years' time there is a committee sitting around in another country asking how the Australians do it.

Mr F.M. LOGAN: John, would you suggest that the committee examine the work of both Scottish Development International and the way they have done it, as well as the Norwegians?

Mr O'Hare: I think it is recognised in the oil and gas industry that the Norwegians have the inside track in how they have gone about it. Australia is different; we did not face what the Norwegians were facing. There are 5 million people perched on the edge of the world where agriculture, fishing and providing people for the merchant marine were their basic industries. Australia is different. To lift the model and try to implement it here would not work. There are, however, some elements of it that make imminent sense.

Mr F.M. LOGAN: I have one final question for John. The Department of State Development provides, or is in the process of providing, I suppose economic advice would be a very broad term to use, about the impacts of the Shell–Woodside decision not to proceed with Browse and move to FLNG. Was your department involved in advice to the DSD as the lead agency with respect to local content? Or, have you been involved in any of the roundtables with the DSD about local content?

[11.40 am]

Mr Grocott: Can I answer that? Yes, we were. As I say, there is a Browse local content steering committee that has met six times. We were involved with the Department of State Development, as was almost every agency across government, in the development of the community agreement. In particular, we were, with Woodside, drafting a Kimberley industry participation plan for the Browse project as an initial step or commitment that it was required to fulfil under its agreement with the minister through the department.

Of course that all stopped when the decision to move away from James Price Point was taken. The DSD should have ample information from Woodside on issues such as the number of people who would be involved in construction and so on and so forth because that was its remit—to present an extremely detailed picture of the impact of this project on the local people and the local economy for planning purposes and coordination purposes.

Mr F.M. LOGAN: Are you involved in providing any advice to the DSD now in respect to the stated position of Shell–Woodside; that is, going from JPP to FLNG and of course, the impact on loss of local content as a result of that?

Mr Grocott: We have provided the DSD with a copy of our submission to this committee. Of course, DSD is a member of the Browse local content steering committee but there is a clear division between the two organisations. We are accepted as the lead agency on local content issues and we accept them as the lead agency on coordination and planning issues. If there are questions about the potential loss then really, at the end of the day, that is our remit rather than theirs.

The CHAIR: We will have to call a halt to proceedings now. I would like to thank you very much for your evidence before the committee today. A transcript of this hearing will be forwarded to you for correction of minor errors. Any such corrections must be made and the transcript returned within 10 days from the date of the letter attached to the transcript. If the transcript is not returned within this period it will be deemed to be correct. New material cannot be added by these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence.

It is possible that we may have some other questions that we have not gotten to today, so is it okay if we forward them onto you?

Mr Grocott: Yes, of course.

The CHAIR: Thank you very much for your time.

Hearing concluded at 11.42 am
