



Industry & Innovation

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Mr Ian Blaney MLA
Chair
Economics & Industry Standing Committee
Parliament House
PERTH WA 6000

Dear Mr Blaney

INQUIRY INTO THE ECONOMIC IMPLICATIONS OF FLOATING LNG – REQUEST FOR FURTHER INFORMATION

I refer to your correspondence through your Principal Research Officer dated 19 February 2014, requesting further information in relation to a series of questions regarding the above. The Department of Commerce responses to these questions follow in the sequence they were requested:

1. The Department does not possess such data. Contact with our Federal counterpart indicates such data does not exist. As was stated during our recent appearance before the committee the Department is aware of one clear case where a draft participation plan was rejected on the grounds of unacceptably low levels of Australian content with a consequent revision of the plan, to a more favourable local content level.

It is important to understand that industry participation plans generally serve as a basis for ongoing and structured discussion between project proponents and government on contract outcomes and steps that may be taken to enhance local competitiveness. Participation plans are not a mechanism whereby project proponents business and procurement models can be aligned to local price capacity and capability.

The Department was involved in a review of the Federal Government's use of participation plans in 2011/12. Continued use of such plans was supported by both mineral and energy associations and supply groups. Improvements arising from the review include public listing of projects, preparing plans and public summaries of approved plans. The Federal Government has also made some realignment of its industry assistance programs to achieve closer linkages to the outcomes from proponent discussions. An example is the introduction of the "Resources Connect Program".

2. In terms of engagement with oil and gas companies the Department is a member of the Gorgon Local Content Steering Committee and chairs similar committees for the Wheatstone and Browse projects. These committees meet quarterly and focus on the application of the company's local content policy and its outcomes.

This interchange has been supplemented by a number of recent studies examining the position of the steel fabrication and engineering and design industries in terms of supply to oil and gas projects and resource developments generally. These studies took company policies and practices into account.

Through State Agreement Acts the Department receives regular reports from companies including Rio-Tinto, BHP Billiton, Alcoa, FMG and Roy Hill. Meetings are held should any negative outcomes in terms of either overall level of content or individual contracts be identified.

The Department also engages with bodies such as the Australian Steel Institute for identification of company policies or actions which are contrary to state government expectations.

Additionally the Department's monthly newsletter with a circulation of over 2000 companies offers suppliers advice and support on selling to the resource sector including State expectations regarding policy and process. This is also an ongoing feature of the business development briefing sessions that the Department has been conducting since September 2011. Feedback on this issue is encouraged.

Finally, the Department is working with individual resource companies on a series of "how to do business with" seminars which include outlining their policy approach.

3. The concept of a code of practice arose from the Technology, Industry and Advisory Council (TIAC) report entitled "Enhancing Opportunities for Small to Medium Enterprises in Major Resource Projects in Western Australia". The report was completed in 2013 and was posted on the TIAC website in December 2013.

A senior person within the Chamber of Minerals and Energy of Western Australia (CMEWA) participated in the TIAC working group which oversaw the reports production. The report highlighted that small to medium sized companies can be confused and discouraged from supplying to the resource market given the complexity and diversity of business and procurement models operating.

In collaboration with CME, development of a code of practice would focus on improved communication and where feasible greater simplification and uniformity of process. Given that the report is now public it is the Department's intention to develop a procurement proposal for consideration by the Chamber of Minerals and Energy of Western Australia Board.

4. During the earlier part of 2013, the Department held a series of meetings with Shell to develop Terms of Reference and finalise membership of the proposed Local Content 'Round Table' relating to the Prelude project. As indicated to the Committee, the last of these meetings was held in October 2013 and we are informed by Shell that progress of the Local Content Round Table was halted due to staff shortages. However, recent discussion held with Shell during the Australian Oil and Gas week indicated that roundtable meetings will re-commence shortly.

The Browse Local Content Steering Committee which was originally concerned with the onshore option has now been reconstituted in terms of membership to concentrate on FLNG. Correspondence between the Minister for Commerce and Woodside (February 2014) confirms the latter's willingness to use the committee to identify opportunities for local supply.

The Department, as outlined in its submission, considers the greatest opportunity for local supply relate to the operational phase of FLNG projects. In this context, a series of detailed studies compiling into a business case have been undertaken on the feasibility of a proposed Pilbara fabrication and services Common User Facility being established in the State's North West which could provide marine and service support to such projects.

The Department has approached its Federal counterpart to suggest a joint working party be established to further pursue this issue.

5. It is incorrect to state there have been three reviews of the ICNWA since 2011. During 2012, the Department instituted an independent audit of the financial management of ICNWA contract which resulted in some readjustment in funding and reporting arrangements. However, it is correct that the Department has had increasing concerns as to the effectiveness of the ICNWA business model in terms of both identifying strategic trends in resource procurement and providing analysis of the reasons for local companies failing to secure resource contracts.

The Department's concerns regarding the business model should be seen in the context of increasingly competitive and complex environment and a stringent budget climate.

Consequently, in June 2013, the ICNWA contract was not renewed. In April 2013, an open tender for the service was issued. Arising from subsequent budget discussions, a decision was taken that further funding for a three year period could not be guaranteed. It should be noted that this tender emphasised the need for a strategic and analytical approach from the potential provider.

6. The more formal mechanisms available to the Department include the Local Content clauses of State Agreement Acts and the Industry Participation Plans sanctioned under the Building Local Industry Policy. Currently some 25 projects are reporting their sourcing decisions to the State Government.

Additionally, the use of Local Content Steering Committees for peak projects facilitates ongoing scrutiny of proponents business and procurement models.

As mentioned above, the Department has commenced a series of 'How to do business with' seminars with companies such as Rio Tinto and Chevron.

Furthermore, as previously mentioned above, the Department seeks the input of entities such as the Australian Steel Institute and Engineers Australia to identify any concerns regarding departures from the provision of full, fair and reasonable opportunity. Attendees at the Department's Business Development workshops and recipients of our newsletter are also provided with this opportunity.

7. The Department does receive comments or complaints from suppliers. These can be of a general nature or relate to a specific contract. It is standard Departmental process to determine whether the supplier wishes to remain unidentified.

The Department will meet with the supplier and make a judgement as to whether the issue is valid. If this is the case, then an approach will be made to the project proponent and/or its contractor to seek an explanation on the process or decision in question.

There have been cases where the proponent will admit a mistake has been made, for example, specification of standards with a consequent amendment to quotation documents. On the other hand, concerns such as inadequate or incomplete documentation from suppliers or significant pricing differentials may emerge. The Department expects this to be an ongoing issue as the magnitude and diversity of resource purchasing by proponents and their prime contractors clearly suggests that departures from best practice are likely to be ongoing.

With regard to the nature of complaints received from suppliers concerns about tender package size and use of established supply relationships outweigh specific award decisions.

8. Each Local Content Report tabled in Parliament since November 2011 has included a progress report on implementation of the Framework. Amongst the Frameworks impacts has been the willingness of project proponents in the oil and gas and iron ore sectors to work with the Department and suppliers in attempting to establish shared vision as to the future role that suppliers could assume (see answer 2 above).

The existence of the Framework has promoted debate on the role that government can play in enhancing local supply. For example, the introduction of the Industry Facilitation and Support Program (IFSP) is a direct consequence. This program focusses on addressing the basic issue of communication between suppliers and the resource market. Funding to suppliers in support of proposed initiatives is only provided on the basis that consultation with the market has occurred.

To date, some 161 companies have been offered assistance through three funding rounds. 83 companies have reported implementation outcomes from their initiatives in terms of contracts awarded (\$151.5m). The success of IFSP has resulted in co-funding with Chevron and currently, potential opportunity is being discussed with a number of other major proponents.

A third aspect of the Framework has been the attempt to broaden the focus on local content. Historically, local content has been viewed at the level of WA value-add achieved during the construction phase of a project with a particular emphasis on steel fabrication. The Framework attempts to include operational sourcing and other forms of benefit which accrue from a proponents' presence in the State. The Parliamentary Local Content Reports identify publically announced, locally awarded resource based contracts to demonstrate the diversity of activities involved.

Finally, the Framework is intended to put the local content debate in an appropriate context. The Local Content Reports have highlighted changing local content market conditions especially during the construction phase of projects. The long term diminishing levels of natural protection due to factors such as the ongoing industrialisation of Asia has long term policy implications at both a State and national level. Therefore, the Framework is intended to inform debate on this issue and dispel expectations that local content levels achieved in the past, particularly for offshore projects, can be restored without rigorous market intervention.

9. The Department's experience in relation to points 5 and 6 of the Framework is outlined in its answer to question 5 above. It is the Department's understanding that ICNWA will continue to operate funded in part by project proponents with an increased contribution from the Federal Government. The Department continues to liaise with ICNWA on an as needs basis.

The Committee may be aware that at least two other States are currently reassessing their funding relationships with their Industrial Capability Network providers.

10. (13) The Department is unaware as to the future of Australian Jobs Act 2013. To date there has been no indication that the States and Territories will be offered the opportunity to comment regarding its future.
11. (14) It is the Department's opinion as outlined above that the local content market is altering significantly to become more competitive and complex. Consequently, in some cases especially offshore developments international sourcing/technology and global benchmarking/best practice has meant a reduction in the level of local content/benefit. As the Department presented its submission this may be particularly pronounced for FLNG.

An initial readjustment by both government and suppliers has been to give increased focus to opportunities in the operational phase of projects. Consideration is also being given to the prospects of successful domestic suppliers moving into global markets.

However, it is for government to determine what overall steps may be warranted should a restoration of the previous exchange ratio between access and benefits be pursued.

Yours sincerely

A handwritten signature in black ink, appearing to read "Brian Bradley". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Brian Bradley
DIRECTOR GENERAL