

SUBMISSION TO THE LEGISLATIVE COUNCIL STANDING COMMITTEE ON ENVIRONMENT AND PUBLIC AFFAIRS RE PETITION NO 57

This submission is made by Christopher Cain in support of Petition 57, which was made by me and tabled by Hon Kate Doust MLC on 10th September 2014 with 4,790 signatures. Both myself and others in the industry would welcome the opportunity to discuss these issues and the need for an inquiry with the Committee in person.

Background

The Gorgon gas project is Western Australia's and Australia's largest ever resources development project. Currently valued at \$54 billion and with a construction workforce of more than 6,000, the project had enormous potential to deliver benefits to local workers, businesses and the broader economy.

In 2003, the Gallop Government negotiated and legislated the Gorgon Gas Processing and Infrastructure Project Agreement ("the Agreement") through the *Barrow Island Act 2003*. The Agreement (known as a 'State Agreement') was made between the Gorgon Joint Venture, led by Chevron, and the State of Western Australia. It included a number of clauses, outlined in Section 15 (Attachment 1), in which the State sought to maximise the participation of local workers and businesses in the project. Section 15 also outlined accountability measures, including the requirement for Chevron to provide regular reports to the Minister (for State Development) and a requirement for the proponent to notify the Minister (currently the Premier) if offshore suppliers were being considered by the project.

It is important to note that the Section 15 obligations upon Chevron and its joint venture partners apply equally to any subcontractors used to deliver the project and that Chevron was required to provide copies of any reports received from its suppliers relating to their Section 15 obligations.

Management of State Agreements

In 2004, the Auditor General examined the performance of the State in managing State Agreement Acts.

In his report (Attachment 2), the Auditor General found that the then Department of Industry and Resources (now Department of State Development) did not methodically monitor how well companies discharged Agreement obligations to maximise the use of local labour, services and materials. As a consequence, the Auditor General concluded it was difficult to demonstrate how effective Agreements had been in encouraging companies to maximise the use of local labour. The Auditor General recommended the Department should adopt a structured approach to evaluating Agreement performance, including how companies discharge their obligations to maximise the use of local content. He further recommended the Department report Agreement status and performance to Parliament.

Neither of these recommendations has been implemented.

Urgency

With the resources construction boom currently easing, and the likely adoption of floating LNG technology for future offshore gas projects, it is possible that the Gorgon and Wheatstone LNG projects will be the last "mega" resources projects developed onshore in Western Australia.

While the construction of the Gorgon project is largely complete, it is in the State's economic interests to rigorously evaluate whether opportunities for local workers and businesses have been maximised. The learnings from such an evaluation could be used to maximise the remaining opportunities on the Gorgon project, as well as informing how the State can manage the less-advanced Wheatstone project to ensure that it maximises local benefits.

There is evidence to suggest that the State Government is relaxing the conditions it placed on Chevron in relation to Wheatstone, with the Premier recently announcing that Chevron would not be required to house its workforce in local communities. The Premier's willingness to relax State Agreement conditions for Chevron was also evidenced recently in the expansion of the 300-hectare footprint originally permitted to Gorgon on Barrow Island, an A-Class nature reserve, under the Agreement.

Lack of Transparency

As outlined above, Section 15 of the Agreement requires Chevron to provide regular (monthly) reports to the Minister (Premier) on the performance of the project in meeting its Section 15 commitments to local labour and suppliers. It is also required to provide copies of reports received from its subcontractors.

To date, none of the reports received by the Premier have been publicly released.

Section 15 of the Agreement also requires Chevron to inform the Minister (Premier) of any services, works, material, plant, equipment and supplies that it may be proposing to obtain, have carried out or permit to be obtained from or carried out outside of Australia, together with its reasons for doing so.

To date, none of the advice provided by Chevron to the Premier in relation this obligation, or his feedback, has been made public.

Inadequacy of Reporting

Since 2011, the Department of Commerce (DoC) has published twice-yearly reports into the level of local content in resources projects operating under State Agreements, including the Gorgon project.

One Page 14 (Attachment 3) of its first report (May 2011), the DoC stated, *“a contract is deemed local if more than 50 per cent of its value added is in Western Australia.”*

The implication of this is that up to 50 per cent of a contract’s value could be added offshore, and the contract still be considered local. It means that the figures presented by the State Government on the value of the local work delivered by Chevron and other State Agreement proponents could be up to double their actual level.

Of additional concern, it appears that the methodology employed by the Department of Commerce in putting together its local content reports has become even less rigorous over time. In a response to a question without notice on 10 September 2014 from Hon Alanna Clohesy MLC (Attachment 4) about the content of the May 2014 local content report, the Minister for Commerce indicated that the geographical location of the successful bidder determined whether a contract was deemed to be local. This might mean that a company could be incorporated or have an office in Western Australia, yet perform all of its work offshore, and the Department of Commerce would still consider this work to be “local” in its reporting.

In the same answer, the Minister for Commerce indicated the information used to put together the local content reports was *“gathered from publicly available sources at the time of award announcement, which does not provide further breakdown of the actual proportion of Western Australian value add.”*

These answers would lead any reasonable person to conclude that the Minister for Commerce no longer has knowledge about the true level of Western Australian value add in the contracts he says are “local” in the local content reports he tables in Parliament.

One, or a combination, of three possible explanations is possible for this:

1. The reports provided by Chevron and other proponents in relation to their commitments to local labour and suppliers do not include a breakdown of the Western Australian value-add;
2. The reports received by the Minister for State Development (Premier) from State Agreement project proponents are not considered by the DoC in putting together its local content reports; and / or
3. The DoC relies upon publicly available media releases, stock exchange announcements, and / or promotional material from companies like Chevron to put together its local content reports and their “estimates” on the level of local value add.

Emerging Issues

A number of issues have emerged throughout the construction of the Gorgon project to indicate that Chevron is not meeting its commitment to give preference to local workers and suppliers. Some examples include:

1. Despite the Premier’s 2009 promise that “Western Australian workshops will be full because of Gorgon”, only five per cent of the 300,000 tonnes of fabricated steel required for Gorgon has been sourced locally. According to the Australian Steel Institute, many businesses invested in plant and equipment in preparation for projects like Gorgon and Wheatstone and many businesses have now closed. The Australian Bureau of Statistics indicates that between August 2009 and August 2014 the Kwinana strip lost 5,400 full time manufacturing jobs, which is the equivalent of 30 per cent of its manufacturing workforce.
2. It was recently revealed that Chicago Bridge & Iron (CB&I), which is one half of the CKJV Joint Venture building Gorgon on Barrow Island, had sourced 30 welders on 457 visas, when plenty of fully qualified workers were available locally.
3. The Australian Mines & Metals Association, which represents more than 20 offshore service vessel companies building Gorgon, has publicly called for changes to Federal immigration regulations to make it easier to use foreign crews on vessels building Gorgon, Wheatstone and other offshore projects.

Need for Inquiry

The lack of transparency in the exchange of information between Chevron and the Minister (Premier) in relation to Chevron’s Section 15 commitments to local workers and suppliers, together with the obvious inadequacy and inaccuracy of the local content reports published by the Department of Commerce, highlight the need for a rigorous public inquiry into the performance of the Gorgon project in delivering for local workers and suppliers.

With evidence clearly emerging that local workers and suppliers are missing out on opportunities from Chevron and its sub-contractors, and the importance to the WA economy of ensuring that economic benefits are maximised from this and future projects like Wheatstone, now is the perfect time to evaluate and learn from the Gorgon experience, and review whether the State’s management of State Agreement Acts has improved in the ten years since the Auditor General published his findings on the matter.

Any inquiry into this matter should be public, so that employee, employer and community representatives can transparently put their perspective on how projects like Gorgon are benefiting the State, and that this information can be interrogated.