



Premier of Western Australia

Your Ref: Petition 57
Our Ref: 24-499110

Hon Simon O'Brien MLC
Chairman
Standing Committee on Environment and Public Affairs
Parliament House
PERTH WA 6000

Simon
Dear Mr O'Brien,

I refer to your letter of 16 October 2014 regarding the Standing Committee on Environmental and Public Affairs petition No. 57, Gorgon Project that was tabled in the Legislative Council on 10 September 2014. Thank you for the opportunity to provide comment.

Please find attached a collated response from the Department of State Development that addresses the seven headings contained within the petition.

I endorse the information and recommendations contained therein, including the Department's recommendation that an inquiry, as called for by the petition, not be required.

Colin Barnett MLA
PREMIER; MINISTER FOR STATE DEVELOPMENT

17 NOV 2014

Att



Response to Standing Committee on Environment and Public Affairs

Petition No. 57 – Gorgon Project

1) Background

The Gorgon Project, is one of the world's largest natural gas projects and the largest single-resource development in Australia. To date, the project has made expenditure commitments worth some \$42 billion, more than \$27 billion of this is for Australian industry and workers, of which 93% has been committed within Western Australia.

Clause 15 of the *Gorgon Gas Processing and Infrastructure Project Agreement* (Agreement) requires the Gorgon Joint Venturers (GJV) to use local labour, suppliers, professional services, as far as reasonably and economically practicable, and to provide local suppliers fair and reasonable opportunity to tender or quote during design and the tendering and letting of contracts. In addition, the GJV are required to give preference to local suppliers where price, quality, delivery and service are equal or better than can be obtained elsewhere.

2) Management of State Agreements

The Department of State Development (the Department) is responsible for negotiating State Agreement Acts and Development Agreements for projects such as Gorgon and Wheatstone, and is responsible for ensuring that the proponent's meet their obligations under the terms of these Agreements.

In regard to the Gorgon Project's local content obligations, the Department uses a structured approach to evaluate the GJV's performance and compliance with their obligations under the terms of the Agreement. The primary mechanism by which the Department monitors the GJV's compliance is an assessment of the Clause 15(3) Quarterly Local Reports and the Gorgon Australian Industry Participation Annual Summary Report, in conjunction with the Gorgon Local Content Steering Committee (GLCSC).

The reports are evaluated against the GJV's commitments in their development proposals under the Agreement. The GJV's development proposals relating to the "use of local professional services labour and materials and measures to be taken with respect to the engagement and training of employees by the Joint Venturers, their agents and contractors" were submitted under clause 7(1)(k) of the Agreement and were approved by the Barrow Island Act Minister on 14 September 2009.

The GLCSC was first established by Hon Clive Brown, the then Minister for State Development in 2004. The purpose of the Committee is to:

- discuss the contents of the quarterly local content report lodged pursuant to clause 15(3) of the Gorgon Gas Processing and Infrastructure Project Agreement 2003 (The Agreement);
- coordinate the State's response to local content matters associated with the Project; and
- assist in identifying potential opportunities for locally based businesses and any barriers to their participation.

The GLCSC operates under a Terms of Reference developed between the GLCSC and the GJV. The Terms of Reference includes the role of the Committee, its members; the frequency and format of the meetings, and the confidentiality requirements for any information provided during meetings.

The GLCSC meets quarterly with the GJV and receives a project update on a list of matters specified by the GLCSC (through an agenda). The GLCSC also provides a list of out-of-session questions to the GJV on specific project matters, or contracts awarded.

In respect to the Department adopting a structured approach to evaluating Agreement performance and advising Parliament on Agreement status and performance, the Department advises that State Agreements are facilitative mechanisms, the primary aim of which is the development of a specified project. These are entered into on a case-by-case basis, giving due consideration to the stage of development and specific circumstances of a project; whether associated matters may be adequately dealt with under existing laws and regulations; and Government policy considerations and objectives.

The Department manages State Agreements on behalf of the State Government and reports on their status, to the public and to Parliament, through the Department's Annual Report which has a 95% Key Performance Indicator for all reporting obligations under State Agreements. This measure has been met consistently.

The Annual Report also provides information on any new State Agreements that have been entered into, the termination and repeal of various Agreements, and any variations to State Agreements, which have been ratified by Parliament. New and additional projects developed under State Agreements are reported publicly through company announcements and media statements by the Minister for State Development, and through the Department's publications such as "Prospect", and the Annual Report.

State Agreements generally have clear reporting requirements for local content. Local Content Reports are reviewed by the Department of Commerce (DoC) and aggregate data is reported to Parliament, through the Minister for Commerce, on a 6 monthly basis.

Tabled Local Content Reports include aggregate data on projects reporting under State Agreements. Tabling more specific company data would risk the disclosure of commercial-in-confidence information.

Local Content reporting primarily assists DoC to monitor trends in the construction and operational phase of projects and/or for benchmarking local content for particular commodity sectors.

3) Urgency

The construction of the Gorgon and Wheatstone projects are now, respectively, 87% and 49% complete. The Department's structured approach and rigorous evaluation of the GJV's performance against their development proposals has facilitated a process of continual improvement, and the lessons learnt by Chevron and its partners have maximised local content opportunities for both projects.

In relation to Wheatstone the Department also uses a structured approach to evaluating local content performance, with the Wheatstone Local Content Steering Committee, with similar Terms of Reference and method of operation to the GLCSC.

There is not a State Agreement for the Wheatstone project, but rather State Development Agreement (SDA). The location of the Wheatstone operations workforce accommodation village is a planning matter, not governed by the SDA. The decision to allow this village to be located within the Ashburton North Strategic Industrial Area (ANSIA) rather than at the border of Onslow was predominantly based on increasing safety of the Chevron workforce and the Onslow community by significantly reducing the travelling time between gas plant and operations village during the high-risk dawn and dusk periods. Further considerations were ensuring that Onslow retained a sense of community, delivering cost savings for the Wheatstone project and making better use of existing infrastructure at the ANSIA.

Chevron has committed in excess of \$250 million for infrastructure in Onslow as part of the Wheatstone project and remains committed to constructing 50 houses in the town for operations workers and their families. The Onslow community will benefit significantly from this infrastructure investment which includes new power and water supply, waste management facility, airport, recreation facilities, as well as road, school and health services upgrades.

With respect to the expansion of the 300 hectare development footprint on Barrow Island, this was approved by the Parliament with the passing of the *Barrow Island Amendment Act 2013* and was subject to full Parliamentary debate and rigour.

4) Lack of Transparency

Business information exchanged between Government and industry in respect to State Agreement matters has traditionally been dealt with confidentially as it contains current commercial data.

The GLCSC operates under a Terms of Reference negotiated with the GJV to ensure the confidentiality of the local content reports and the information provided during meetings. The information includes costings of contracts awarded and forecasts for procurement and contract requirements, for the purpose of confirming the GJV's compliance with the clause 15 requirements.

5) Inadequacy of reporting

DoC has broad responsibility for Industry Participation Policy and the Department supports these policies through Agreement Acts and Development Agreements.

The criteria used by DoC for determining the proportion of local content is consistent with the Australian Industry Participation National Framework. Companies or businesses holding an ACN or ABN are Australian companies and the work that they undertake and the people that they employ within Western Australia constitute local content.

Additionally, the fabrication of steel products by local manufacturing business using imported steel may also be considered local content.

DoC uses data gathered from public sources in its reports on local content for reasons of confidentiality. The risk in providing more specific company data is that commercial in confidence information may be inadvertently be disclosed.

6) Emerging issues

The State Government is aware that changes to industry practice, such as the capacity to build larger off-site modules, will result in decreased opportunities for the local steel fabrication sector, an area where they were previously highly competitive. Significant module work is being carried out in overseas steel yards and less "stick build" civil works are being undertaken on site in Australia.

Access to the procurement pipeline is being facilitated through increased business and community engagement by DoC, and Chevron on behalf of the GJV to promote local goods and service providers' engagement with the procurement chain. Chevron provides dual listing of project opportunities and contracts on ProjectConnect and the Western Australia Industry Capability Network gateway (ICNWA). Chevron and DoC have hosted ICNWA and other workshops which have a strong focus, targeted to assist lower tier suppliers and contractors, to access opportunities in the LNG construction, operations and maintenance phases.

The State Government, through its Local Industry Participation Framework, is committed to the principle of full, fair and reasonable opportunity for competitive local suppliers to participate in Western Australia's resource projects.

The Government also recognises that a balance is required between ensuring Western Australian employers' needs can first be met from the local workforce, and keeping flexible pathways open for employers to sponsor overseas workers to fill positions which cannot be filled by local workers. The Government therefore supports the use of subclass 457 visas as a vehicle for employers to fill temporary skills shortages when suitable local workers are unavailable. The Western Australian Government's submission to the *Independent Review of the Integrity in the Subclass 457 Programme* (www.immi.gov.au/pub-res/Documents/reviews/wa-govt.pdf) recommends that the Australian Government conduct more regular market analysis, including increased consultation with State and Territory Governments, to identify changes in demand for occupations and to amend the Consolidated Sponsored Occupations List accordingly.

7) Need for Inquiry

The Department advises me that the Gorgon Joint Venturers are in compliance with their obligations under clause 15 of the State Agreement and does not support calls for an inquiry.