

Mr Paddy Crumlin and Mr Christy Cain  
Maritime Union of Australia  
Level 2/365 Sussex St  
Sydney. NSW. 2000

Committee Secretary  
Senate Education and Employment Committees  
PO Box 6100  
Parliament House  
Canberra ACT 2600

By Email: [eec.sen@aph.gov.au](mailto:eec.sen@aph.gov.au)

Thursday 8<sup>th</sup> May, 2014

Dear Committee Secretary

**AMMA'S SUBMISSION TO THE SENATE INQUIRY INTO THE FAIR WORK  
AMENDMENT BILL 2014**

We write to provide additional information in response to the submission by the Australian Mines & Metals Association to the Senate Education and Employment Legislation Committee's inquiry into the Fair Work Amendment Bill 2014.

We understand that the deadline for submissions has closed. The Maritime Union of Australia (MUA) has already provided a submission to the Inquiry. We ask that you accept this additional submission from the MUA, given the statements made by AMMA in their submission and associated media release about the MUA and the offshore oil and gas industry, in which our union is responsible for more than 2,000 workers.

This submission does not seek to respond to all of the issues raised by AMMA in its submission, but rather confines itself to the section on reaching greenfield agreements, and the claims AMMA makes about wages in the offshore oil and gas sector.

AMMA has had significant success in creating the perception within the media and the community that workers in the offshore oil and gas industry, and, in particular MUA members, enjoy unreasonable wages. AMMA has done this as part of a campaign to change Australia's industrial relations laws. Its strategy is to portray the wages of offshore oil and gas workers as a threat to future projects, and hence the economic and social well being of all Australians.

Research undertaken by BIS Shrapnel in 2013 found that the claims AMMA was making about the wages of MUA workers in the offshore oil and gas industry were inflated by more than 40 per cent. The same research also found that the wages of maritime workers made up less than one per cent of the cost of building projects like the \$54billion Gorgon project, and that competitiveness issues on that project were largely due to poor management.

Given AMMA's claims about the levels of wages in the sector, and their impact on the cost of building projects, are false, its assertion that wages could impact on the investment decisions for future projects should be discounted by the Committee.

We have attached the BIS Shrapnel report for the Committee's consideration.

### **Inflated claims about wages**

Throughout 2013, AMMA claimed cooks represented by MUA workers earned \$230,000 per year. To this date, AMMA has not presented one piece of proof that any individual worker actually earned this amount.

The BIS Shrapnel research found that average earnings by cooks in the sector in 2013 were 42 per cent less than the \$230,000 claimed by AMMA. Average earnings of approximately \$160,000 per annum are consistent with our union's understanding of the wages received by our members in the sector. The vast majority of cooks that we represent in the sector have a base salary of \$137,000 per annum, and can receive between \$10,000 to \$30,000 a year on top of this, due to certain allowances.

These wages are not out of step with the wages and conditions received across the resources industry. Our members spend six months a year away from home, working 12 hour shifts for swings of 28 consecutive days. They miss out on many family and cultural events, work in isolated and dangerous conditions and suffer some of the highest rates of mental illness and family breakdown in the Australian workforce.

The key point here is that AMMA has never substantiated its claim that these workers earn \$230,000 per year. AMMA has intentionally sought to create the perception that all workers earn the maximum amount that it might be possible to earn if a worker earned every single allowance that might be available for every hour that they worked. In reality, as found by BIS Shrapnel, this does not occur. The wages received by these workers are significantly less, and not unreasonable for the work performed.

The simple fact is this; the only union described in commentary in AMMA's submission to the Senate Committee in relation to making greenfield agreements is the MUA.

AMMA's Accompanying Media Release titled: "Unsustainable resource wages threaten jobs and growth, Senate told" dated April 29, 2012, makes the claim: "In 2013, a cook working for six months on offshore resources project construction was earning \$355,000; 47% or \$105k more than the same role in 2007. Barge welders now command \$2180 per day, or about \$396,000 for working six months."

In addition, on Pages 10 and 11 of the AMMA submission, a "case study" is presented for a janitor aboard a vessel servicing the offshore oil and gas industry. It claims this janitor is earning "not less than several hundreds of thousands of dollars per year."

By presenting this case-study after singling out the MUA for criticism in its submission, AMMA gives the impression that this janitor is an MUA member.

The Committee should note that, while presenting this as a case study, AMMA has not provided details of the project or the vessel, and, in reality, has not provided an actual figure for the wage it claims the worker(s) are earning.

The best-case scenario is that this is sloppy work on behalf of AMMA. The worst-case scenario is that AMMA has deliberately sought to mislead the Committee by presenting a scenario based on a worker who does not exist, and, by inference, associating this worker with the MUA.

Given the MUA's experience with AMMA, the MUA believes it entirely possible that the latter scenario is the case.

The MUA believes that, before the Committee relies upon anything AMMA has to say about the wages received by workers in the offshore oil and gas industry, as well as the implications of those wages, it should demand that AMMA substantiate its claims about wages levels.

The Committee should demand that AMMA provide details of projects and vessels, as well as time frames. While respecting the privacy of individuals, AMMA should provide copies of the 2013 payment summaries for the cooks that earned \$355,000 or the janitors that it claims are earning "several hundreds of thousands of dollars a year."

If AMMA cannot provide this substantiating information to the Committee, its submission and its recommendations should be treated as being based on misrepresentations and false assumptions.

### **Competitiveness of future offshore projects**

Putting aside the accuracy of AMMA's claims about maritime wages in the offshore oil and gas industry, the reality is the wages and conditions of these workers are a largely insignificant factor in the competitiveness of the offshore oil and gas industry.

According to BIS Shrapnel, maritime wages make up less than one per cent of the cost of building projects like the \$54 billion Gorgon project. In fact, BIS Shrapnel found that the greatest opportunities for increased competitiveness on Gorgon and other LNG projects could be found in better management practices, not lower wages for workers.

Based on the findings of BIS Shrapnel, the impact of halving the wage levels of maritime workers over the life of the construction phase of the Gorgon project would have resulted in the project costing \$53.5 billion to build, rather than \$54 billion.

Based on the feedback of our members and other parties within the industry, it is the very firm view of the MUA that one of the objectives of AMMA's campaign to attribute cost blowouts on projects like Gorgon to maritime wages is to protect Chevron management from being held accountable for problems on that project.

Maritime wages are a largely insignificant factor in the total cost of building these projects and the Committee should not accept any assertion that changes to the Fair Work Act would result in any material improvement in the competitiveness of current or future projects.

In conclusion, the MUA thanks the Committee for the work it is doing and again respectfully asks that this submission, and the attached BIS Shrapnel report, be accepted by the Committee and considered as it deliberates. We also ask that you insist that AMMA provides the Committee with the substantiating evidence identified above, before taking any of its claims about wage levels in the offshore oil and gas industry seriously.

Yours sincerely,

**PADDY CRUMLIN**  
**NATIONAL SECRETARY**

**CHRISTY CAIN**  
**MUA WA BRANCH SECRETARY**

CC: Senator Chris Back  
Senator Sue Lines  
Senator Helen Kroger  
Senator Bridget McKenzie  
Senator Lee Rhiannon  
Senator Mehmet Tillem



# Implications of Wage Costs on the Offshore Oil and Gas Marine Support Sector

Prepared by BIS Shrapnel for Maritime Union of Australia



SEPTEMBER • 2013

ECONOMICS

© BIS Shrapnel Pty Limited September 2013

The information contained in this report is the property of BIS Shrapnel Pty Limited and is confidential.

All rights reserved.

No part of this report may be reproduced or transmitted in any form, nor may any part of or any information contained in this report be distributed or disclosed to any person who is not a full-time employee of the Subscriber without the prior written consent of BIS Shrapnel Pty Limited. The Subscriber agrees to take all reasonable measures to safeguard this confidentiality. Subscribers may not, under any circumstances, use information in this report for promotional purposes.

*Note: Although great care has been taken to ensure accuracy and completeness in this project, BIS Shrapnel Pty Ltd has not independently verified, and does not accept responsibility for, the completeness and accuracy of the factual information on which its opinions and assumptions are based, which information has been derived from public authorities or government bodies.*

Job No: E5945

BIS Shrapnel contact: Richard Robinson  
BIS Shrapnel Pty Limited  
Level 8, 99 Walker Street  
North Sydney NSW 2060  
Australia  
T: +61 (02) 8458 4200  
F: +61 (02) 9959 5795

*Project Team: Darren Anderson, Kurt Lemke*

## Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>1. INTRODUCTION.....</b>	<b>5</b>
<b>2. METHODOLOGICAL REVIEW.....</b>	<b>6</b>
<b>3. DAE – INTEGRATED RATING WAGE GROWTH HAS EASILY OUTPACED GROWTH IN THE WAGE PRICE INDEX FOR ALL WORKERS OVER THE LAST DECADE .....</b>	<b>8</b>
<b>4. DAE – THE OFFSHORE OIL AND GAS MARINE SUPPORT SECTOR IS UNABLE TO SUSTAIN WAGE INCREASES AS REVENUE AND PROFITS HAVE DETERIORATED OVER THE PERIOD 2007-08 TO 2011-12 .....</b>	<b>10</b>
4.1 BIS Shrapnel analysis- The offshore oil and gas marine support sector is thriving .....	10
<b>5. DAE – RISING WAGES HAVE LEAD AUSTRALIA TO PRICE ITSELF OUT OF A LEADING EDGE POSITION IN THE GLOBAL GAS DEVELOPMENT QUEUE.....</b>	<b>12</b>
5.1 BIS Shrapnel analysis – integrated rating wages represent 0.25% of total LNG project costs in Australia .....	12
5.2 BIS Shrapnel analysis – wages represent 1% or less of potential opportunities to close the competitive gap .....	13
<b>6. THE EXCHANGE RATE IS FORECAST BY BOTH DAE AND BIS SHRAPNEL TO CLOSE THE COMPETITIVE GAP BY 2017 TO 2108.....</b>	<b>18</b>
<b>7. CONCLUSION .....</b>	<b>20</b>
<b>REFERENCES.....</b>	<b>22</b>

**Implications of wage costs on the offshore oil and gas marine support sector**

---

**Tables and Charts**

Table I:	Gorgon Project Cost Estimates .....	3
Table 1:	Tidewater Marine Australia .....	8
Table 2:	Gorgon Project Cost Estimates .....	12
Table 3:	Landed cost for Australian-sourced LNG relative to competitors, break even landed costs in Japan in US\$/mmbtu, exchange rate fixed at US\$1.0285 .....	13
Table 4:	Landed cost for Australian-sourced LNG relative to competitors, break even landed costs in Japan in US\$/mmbtu, exchange rate fixed at US\$0.91 .....	14
Table 5:	Labour Productivity Landed Cost Savings Opportunities, exchange rate fixed at US\$1.0285 .	16
Table 6:	Relative recommended contribution to Cost improvements, exchange rate fixed at US\$1.0285 .....	17
Table 7:	Landed cost for Australian-sourced LNG relative to competitors, break even landed costs in Japan in US\$/mmbtu, exchange rate fixed at US\$0.80 .....	18
Table 8:	Exchange rate forecasts 2013–2018 \$US per \$A, June Qtr .....	19
Chart I:	Integrated rating wage comparison, annual wage, indexed 2005, adult, full-time ordinary earnings .....	1
Chart II:	Relative recommended contributions to cost improvements, exchange rate fixed at US\$1.0285 .....	3
Chart III:	Labour productivity contribution to landed LNG competitive cost gap, break even landed costs in Japan in US\$/mmbtu, exchange rate US\$0.80 .....	4
Chart 1:	Wages exaggerated .....	9
Chart 2:	Integrated rating wage comparison, annual wage, indexed 2005, adult, full-time ordinary earnings .....	9
Chart 3:	Labour productivity contribution to landed LNG competitive cost gap, break even landed costs in Japan in US\$/mmbtu, exchange rate US\$1.0285 .....	14
Chart 4:	Labour productivity contribution to landed LNG competitive cost gap, break even landed costs in Japan in US\$/mmbtu, exchange rate US\$0.91 .....	15
Chart 5:	Labour productivity landed LNG cost savings opportunities, low scenario, US\$0.90 in savings .....	16
Chart 6:	Labour productivity landed LNG cost savings opportunities, high scenario, US\$1.60 in savings .....	16
Chart 7:	Relative recommended contributions to cost improvements, exchange rate fixed at US\$1.0285 .....	17
Chart 8:	Labour productivity contribution to landed LNG competitive cost gap, break even landed costs in Japan in US\$/mmbtu, exchange rate US\$0.80 .....	19



## EXECUTIVE SUMMARY

BIS Shrapnel has been commissioned by the Maritime Union of Australia (MUA) to respond to the report published by Deloitte Access Economics (DAE) on August 2013 entitled, “*Analysis of the offshore oil and gas marine support sector*”. The DAE report argues offshore oil and gas marine support sector wage growth is threatening the viability of both the oil and gas marine support sector and the viability of Australia’s oil and gas industry in general. Specifically, BIS Shrapnel has been asked to verify the accuracy of DAE’s evidence, analysis and conclusions made within the report.

**First, our critique of the DAE report reveals that the methodology that forms the backbone of its analysis – a survey of 5 out of 19 vessel operators – fails to meet accepted standards of survey methodology.** While survey data can be a powerful tool to examine markets, its usefulness becomes questionable when the participants may be subject to bias in their responses. In this case the vessel operators, members of AMMA who commissioned the report, are the companies responsible for negotiating the bargaining agreements that cover seafarers (integrated ratings<sup>1</sup>) and would want to create an impression that they are under financial strain in order to influence the bargaining environment. A more reasonable method is to refer to previously published public data as a more reliable source of unbiased information. **Therefore, BIS Shrapnel’s methodological approach for this response is based on a review of publicly available data.**

Second, we examined DAE’s evidence and claims that integrated rating wage growth has easily outpaced growth in the wage price index for all workers over the last decade. However, this is not a fair comparison as the all-industries wage price index includes a heavy weighting in industries such as retail that have historically maintained thin margins and do not face skilled labour constraints. The wage price index is further weighed down by including non-resource boom states that have not experienced the same rapid growth in demand for skilled employment as the resource states. To remedy this, BIS Shrapnel compared wage growth for integrated rating workers (employees responsible for berthing and un-berthing, securing cargo, maintenance and other generalised duties) on Schedule 1 (standard) and Schedule 8 (specialist) vessels as identified in offshore enterprise agreements to industries of a similar nature and facing similar constraints such as mining and construction. **Chart I demonstrates that when placed against more relevant indexes, integrated rating wage growth has lagged behind construction and mining wage index growth over the period 2005 to 2013.**

Further, we examined the accuracy of claims attributed by DAE to Gary Gray, the Federal Resources and Energy Minister, that marine cooks<sup>2</sup> are paid up to \$230,000 per year. Our analysis of the public record finds that DAE’s claim that marine cooks are paid \$230,000 per year is highly exaggerated by a magnitude of 40%.

Third, a review of public data, including annual reports and official financial statements of companies engaged in the sector, reveals a different story than described by DAE. Revenue growth of over 200% compared to 32% wage growth over the same period strongly refutes the

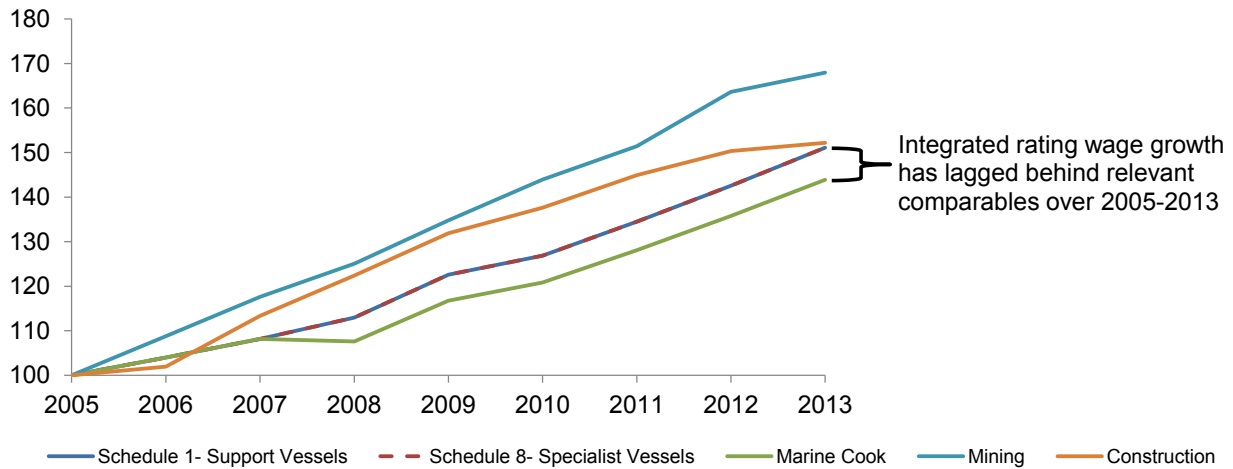
---

<sup>1</sup>An Integrated Rating is the core non-Deck officer, non-Engineering officer occupation on ocean-going vessels. An integrated Rating is an internationally recognised occupation. An Integrated Rating must hold a Certificate Level III vocational qualification and a Certificate of Proficiency from the maritime regulator. It takes approximately 18 months training to become an Integrated Rating.

<sup>2</sup> A Marine Cook is a specific qualification recognised in legislation. A Marine Cook must hold as a minimum a VET Certificate Level III trade qualification.

Implications of wage costs on the offshore oil and gas marine support sector

**Chart I: Integrated rating wage comparison, annual wage Indexed 2005  
 Adult, Full-time ordinary earnings**



claim that wage growth is outpacing revenue growth as described by DAE<sup>3</sup>. More importantly, profits, as demonstrated by EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation), have been outstanding over the period – EBITDA averaged 13.2% compound annual growth rate (CAGR) from 2007 to 2012. EBITDA includes the wage bill, and clearly illustrates the strong performance of the sector over the period. In summary, strong double-digit revenue and profit growth, as supported by the public record over the period from 2007 through 2012 corporate financial years, strongly refutes the assertion that the offshore oil and gas marine support sector is under economic pressure.

Fourth, we carefully examined DAE’s implication that rising wages have lead Australia to price itself out of a leading edge position in the global gas development queue. Again, DAE relied on an expert source to base its analysis and conclusions. In this case, the expert source is the McKinsey (2013) report, “*Extending the LNG boom: Improving Australian LNG productivity and competitiveness*”. DAE quotes:

“McKinsey (2013) estimates that a new Australian LNG project would have a cost of supply as much as 30% higher than a matching Canadian or east African project.” (page vii, paragraph 2 and page 15, paragraph 3)

However, it is imperative to compare the wage bill costs for a major LNG project such as Gorgon, in relation to other costs to develop the project. According to Maritime Employees Training Ltd, the total integrated rating wage cost of a project such as Gorgon is approximately 0.25% of the total project cost as shown in Table I<sup>4</sup>. Clearly, the impact of wage growth, which is such a small component of the total project cost, is unlikely to present any material threat to viability.

<sup>3</sup> Three firms in the offshore oil and gas marine support sector provided sufficient data through annual reports and investor presentations to form estimates of revenue growth for corporate financial years 2007 through 2012. Wage growth of 32% is based on the Tidewater Marine enterprise agreements covering integrated ratings employees over 2007 through 2012.

<sup>4</sup> The Computerised Interactive Workforce Planning and Prediction Tool (CIWPAPT) model is designed to work out how many people need to be trained, in what classifications, and when. It uses information supplied by industry, AMSA, Seacare and to some extent the ABS.

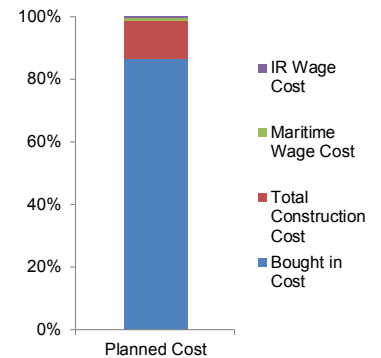
The CIWPAPT model uses formulae to calculate the all-up cost of employing workers based on a basic across-industry pay rate, plus on-costs plus other costs such as PPE gear, training, travel and allowances.

Implications of wage costs on the offshore oil and gas marine support sector

**Table I: Gorgon Project Cost Estimates**

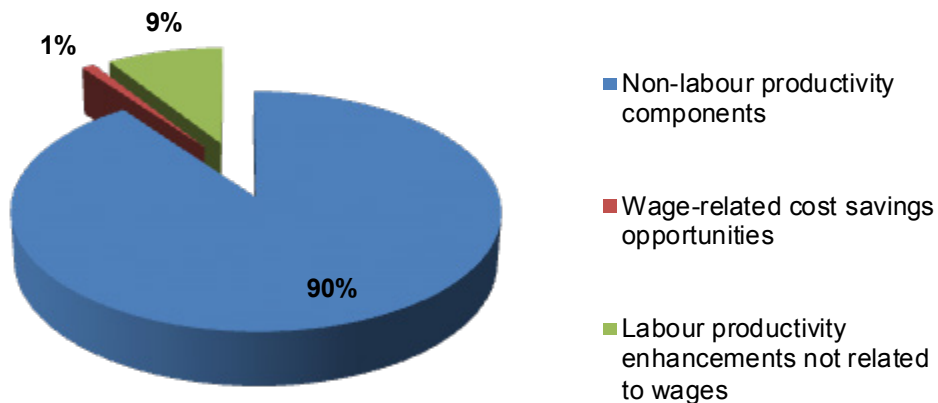
	US\$Billion	Share of Project Cost
Bought in Cost	37.63	87.50%
Construction Cost (ex IR)	5.27	12.26%
IR Wage Cost	0.11	0.25%
Planned Cost	43.00	100%

Source: Maritime Employees Training Ltd, CIWPAPT model



Further, a thorough review of the McKinsey (2013) report shows that DAE misinterpreted the report and its implications. BIS Shrapnel found that wage-related issues accounted for less than 1% of the potential recommended cost improvement opportunities available to Australian-sourced LNG projects.

**Chart II: Relative recommended contributions to cost improvements  
 Exchange rate fixed at US\$1.0285**



Source: McKinsey (2013), BIS Shrapnel analysis

**This analysis shows that wages are not the driver of the competitive gap that DAE and the AMMA are proposing. In fact, if Australia is seeking to improve its competitive position in the LNG gas development market queue, its energies are best focused on areas other than wages.**

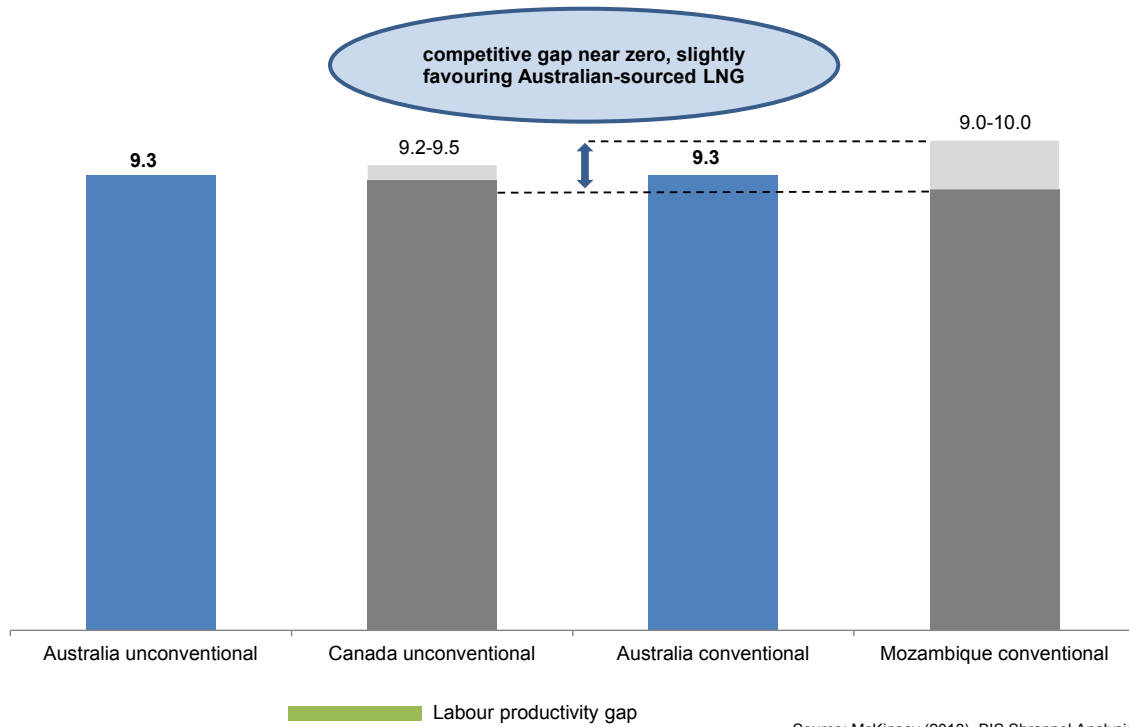
Finally, we found that competitive differences used by DAE and McKinsey (2013) employed a fixed exchange rate of US\$1.0285. As of the time of this writing, the Australian dollar has already fallen to \$US0.91, and is forecast by both BIS Shrapnel and DAE to fall towards \$US0.80 by 2017-2018. Therefore, we tested the competitive gap between Australian-sourced LNG projects relative to competitors under three different exchange rate scenarios that are more in alignment with current and future macroeconomic conditions. The tests reveal that under current conditions, the competitive gap is already reduced by approximately 50-56% and will be essentially eliminated by the time the Australian dollar reaches \$US0.80.

The all-up cost of employing a maritime worker in the offshore oil and gas sector is estimated to be \$197,761 per annum.

The CIWPAPT model uses the gross value of offshore oil and gas projects and works backwards from that to calculate the number of workers required.

Implications of wage costs on the offshore oil and gas marine support sector

**Chart III: Labour productivity contribution to landed LNG competitive cost gap**  
Break even landed costs in Japan in US\$/mmbtu, Exchange rate US\$0.80



## **1. INTRODUCTION**

BIS Shrapnel has been commissioned by the Maritime Union of Australia (MUA) to respond to the Deloitte Access Economics (DAE) report entitled, "*Analysis of the offshore oil and gas marine support sector*". The DAE report argues that offshore oil and gas marine support sector wage growth is threatening the viability of both the oil and gas marine support sector and the viability of Australia's oil and gas industry. Specifically, BIS Shrapnel has been asked to verify the accuracy of DAE's evidence, analysis and conclusions made within the report.

The DAE argument is fundamentally based on two themes: 1) the offshore marine support sector is unable to sustain wage increases as revenue and profits have deteriorated over the period 2007-08 to 2011-12 and 2) rising wages have lead to Australia pricing itself out of its leading edge position in the global gas development queue. We begin by examining the methodological approaches employed by DAE and its recommended solutions, followed by a critical assessment of the accuracy of each of these fundamental arguments in turn.

## Implications of wage costs on the offshore oil and gas marine support sector

---

### 2. METHODOLOGICAL REVIEW

**With assistance from the Australian Metals and Mines Association (AMMA), DAE conducted a survey of 5 out of 19 vessel owner-operators servicing the Australian market.** The purpose of the survey was to reveal the financial performance of vessel operators by collecting cost and revenue information for the period 2007-08 to 2011-12.

**While survey data can be a powerful tool to examine markets, its usefulness becomes questionable when the participants, vessel operators, may be subject to bias in their responses.** In this case the vessel operators, members of AMMA who commissioned the report, are the companies responsible for negotiating the bargaining agreements that cover seafarers (integrated ratings) and would want to create an impression that they are under financial strain in order to influence the bargaining environment. A more reasonable method is to refer to previously published public data as a more reliable source of unbiased information.

**Therefore, BIS Shrapnel's methodological approach for this response is based on a review of public data.** To address the claims regarding wages (such as cooks earning \$230,000 per year) and wage growth, we examined four offshore oil and gas marine support sector enterprise bargaining agreements (EBA):

- Tidewater Marine Australia Pty Ltd Integrated Ratings, Cooks, Caterers, and Seafarers (Offshore Oil and Gas) Enterprise Agreement 2010
- Tidewater Marine Australia Pty Ltd Integrated Ratings, Cooks, Caterers, and Seafarers Agreement 2006-09
- Compass Group – Woodside (Goodwyn, North Rankin & Angel) Enterprise Agreement 2010
- Compass Group & AWU - Transocean (offshore drilling rigs) Enterprise Agreement 2011-13

The results of our research regarding wages paid and wage growth is found in Chapter 3.

With respect to the financial health of the offshore oil and gas marine support sector, we investigated publicly available annual reports, official financial statements and investor presentations from among companies that presumably participated in the DAE survey. For efficiency, we identified the top 12 firms based on the number of employees the company engaged in ratings occupations in 2012<sup>5</sup>. Of the top 12 firms, only 3 firms provided enough publicly available financial data over the period 2007 through 2012 to create estimates of Australian-level financial performance in the offshore oil and gas marine support sector. In aggregate, the three operators analysed accounted for 38% of total rating staff employed in 2012.

Unfortunately, the data extracted from annual reports and corporate financial statements do not separate out revenue, costs and margins between manning personnel and vessels in the sector. This is not truly problematic however, as vessels cannot operate without personnel. **Therefore, it is preferred to assess the performance of the sector as it is treated within the annual reports and financial statements (and certainly how an investor would view the performance).** Further, in some cases, firms operate internationally without country level performance, and when possible estimates have been provided. The results of our examination of the public record with respect to the financial performance of offshore oil and gas marine support service firms are found in Chapter 4.

**Further, DAE has quoted expert sources to either support, or entirely construct its conclusions.** In the case of comments from Gary Gray, the Federal Resources and Energy

---

<sup>5</sup> Employment source Unison membership database managed by the MUA.

---

**Implications of wage costs on the offshore oil and gas marine support sector**

---

Minister, and the research referenced to McKinsey (2013), **BIS Shrapnel has relied on the public record and a deeper analysis of the referenced research.** The results of the public record regarding Gary Gray's comment is found in Chapter 3, and the results of our deeper analysis of the cited McKinsey research is found in Chapter 4.

**Finally, while the DAE report acknowledges the importance of the Australian dollar as a key driver of international competitiveness for oil and gas projects, it conveniently omitted its forecast for the Australian dollar in its assessment of present and future pressures on the LNG sector.** To rectify this error, we have undertaken a re-evaluation of the competitiveness of Australian oil and gas projects, using McKinsey (2013) data, under three different exchange rate scenarios. To provide context to the scenarios, we provide forecasts for the exchange rate over the next five years from both BIS Shrapnel and Deloitte Access' Economics *Business Outlook*. The details of this analysis are found in Chapter 4.

Implications of wage costs on the offshore oil and gas marine support sector

**3. DAE – INTEGRATED RATING WAGE GROWTH HAS EASILY OUTPACED GROWTH IN THE WAGE PRICE INDEX FOR ALL WORKERS OVER THE LAST DECADE**

To arrive at this conclusion, DAE compared its limited survey estimates (likely biased) of wages and wage growth for integrated ratings schedules 1 and 8 for the past decade compared to the growth of the wage price index for all industries in Australia over the same period<sup>6</sup>. Further, DAE quoted an expert source to support its conclusions:

“The situation was aptly surmised by Gary Gray, the Federal Resources and Energy Minister when commenting on the Maritime Union of Australia’s claim for cooks to be paid up to \$230,000 a year.” (page vii, paragraph 3)

First, to assess the validity of claims regarding wages paid to integrated ratings workers on Schedule 1 and Schedule 8 vessels, we performed a time series analysis of the Tidewater Marine Pty Ltd Integrated Ratings, Cooks, Caterers, and Seafarers (Offshore Oil and Gas) Enterprise Agreements covering the time period 2005 to 2013. The Tidewater agreements address wages specifically for the offshore oil and gas sector, and cover construction. The Tidewater agreements clearly state the annualised wages to be paid each year to the relevant integrated rating schedules 1 and 8. Table 1 illustrates our findings:

**Table 1: Tidewater Marine Australia EBA wage rates**

<b>Year</b>	<b>Schedule 1- Support Vessels integrated rating</b>	<b>Schedule 8- Specialist Vessels integrated rating</b>	<b>Schedule 8- Specialist Vessels CIR/CTA/Cook</b>
2005	\$91,596	\$107,167	\$112,525
2006	\$95,259	\$111,454	\$117,026
2007	\$99,069	\$115,912	\$121,708
2008	\$103,477	\$121,068	\$121,068
2009	\$112,273	\$131,359	\$131,359
2010	\$116,202	\$135,957	\$135,957
2011	\$123,175	\$144,113	\$144,113
2012	\$130,565	\$152,761	\$152,761
2013	\$138,399	\$161,927	\$161,927

Source: Fair Work Australia, BIS Shrapnel

<sup>6</sup> We have inflated the annualised wages found in the enterprise bargaining agreements by adding 13% superannuation over the entire data series. However, taxi fares and work specific clothing items to the wage bill were not added. However, it is unlikely taxi fares and work clothing would account for the large wage differences between our review of the public record and results reported by DAE.

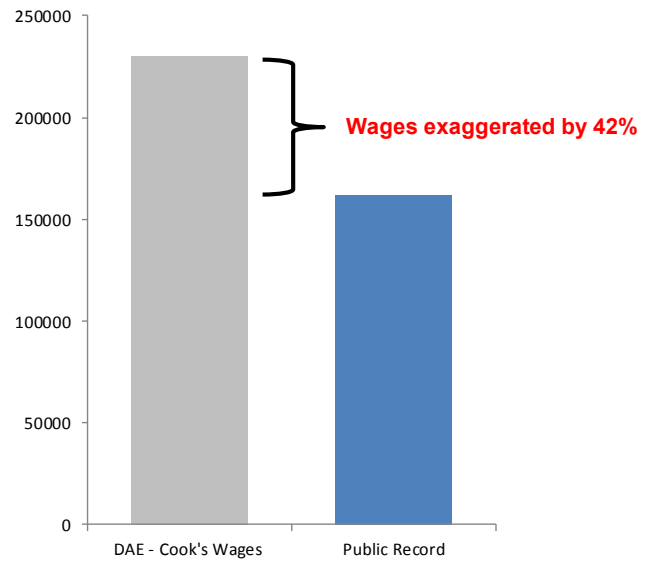


**Implications of wage costs on the offshore oil and gas marine support sector**

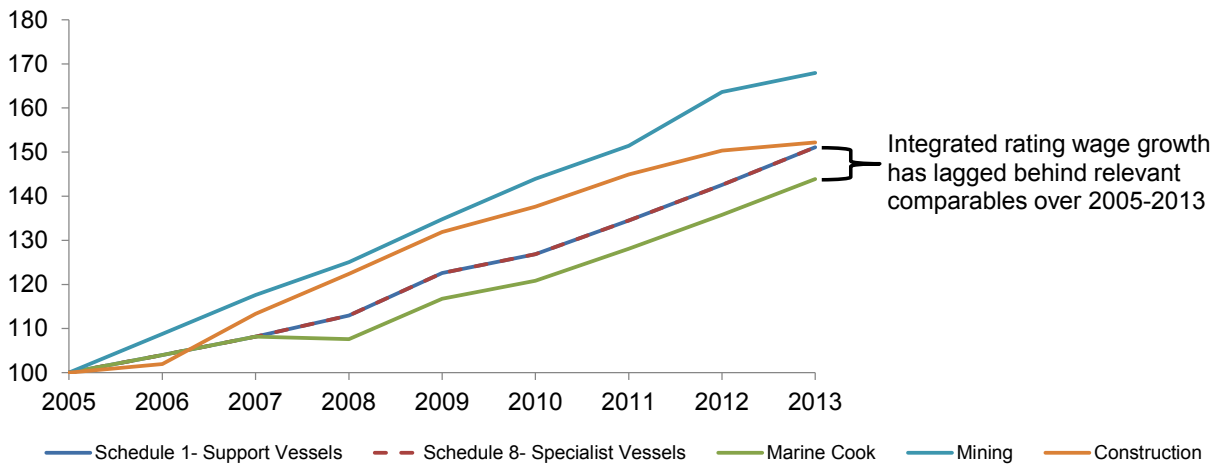
Further analysis of other EBAs, including those covering integrated ratings in the offshore oil and gas sector for Woodside and Transocean, provide similar results<sup>7</sup>. In short, our analysis of the public record finds that DAE’s claim that cooks are paid \$230,000 per year is highly exaggerated. **As shown in Chart 1, compared to the Tidewater agreement covering cooks after July 2012, DAE’s claim is exaggerated by approximately 40%.**

Second, DAE compared integrated wage growth for Schedule 1 and Schedule 8 (including construction) to the growth of the wage price index covering all industries in Australia. This is not a fair comparison as the all-industries wage price index includes a heavy weighting in industries such as retail that have historically maintained thin margins and do not face skilled labour constraints. The wage price index is further weighed down by including non-resource boom states that have not experienced the same rapid growth in demand for skilled employment as the resource states. To remedy this, BIS Shrapnel compared wage growth for integrated ratings wage growth on Schedule 1 and Schedule 8 vessels to ordinary, full-time adult earnings for mining and construction wage growth.

**Chart 1: Wages exaggerated**



**Chart 2: Integrated rating wage comparison, annual wage Indexed 2005  
 Adult, Full-time ordinary earnings**



**Chart 2 demonstrates that when placed against more relevant indexes, integrated rating wages growth has lagged behind construction and mining wage index growth over the period 2005 to 2013.**

<sup>7</sup> The enterprise agreements referenced are the Compass Group – Woodside (Goodwyn, North Rankin & Angel) Enterprise Agreement 2010 and the Compass Group & AWU - Transocean (offshore drilling rigs) Enterprise Agreement 2011-13

## Implications of wage costs on the offshore oil and gas marine support sector

---

### 4. DAE – THE OFFSHORE OIL AND GAS MARINE SUPPORT SECTOR IS UNABLE TO SUSTAIN WAGE INCREASES AS REVENUE AND PROFITS HAVE DETERIORATED OVER THE PERIOD 2007-08 TO 2011-12

The following statements made by DAE within the report state their position:

- “More recently, however, cost pressures in the sector – including labour costs – have increased notably. That is presenting substantial challenges, eroding the competitiveness and profitability of the offshore oil and gas marine support sector.” (page iv, paragraph 3)
- “However, there are limitations on the capacity of employers in the sector to meet demands for sustained wage growth which is disproportionate to broader wage and price measures.” (page x, paragraph 1)
- “With assistance from AMMA, Deloitte Access Economics has undertaken a survey of vessel owner-operators servicing the Australian market. The survey was undertaken to reveal the financial performance of vessel operators by collecting cost and revenue information for the period 2007-08 to 2011-12. The survey was completed by companies who are active participants in the Australian offshore oil and gas marine support industry, and is presented here in aggregate form. The total combined revenue from Australian vessel operations of the survey participants is estimated to have been approximately \$600 million in 2011-12.” (page x, paragraph 3)
- “The survey shows that the profitability of vessel operators has been squeezed in recent years. The cost of labour has been rising sharply, while revenue growth has been more muted. The split between labour cost and revenue growth has had a significant effect on vessel operator profits.” (page x, paragraph 4)
- “Both total expenses and wages have increased by around 40% since 2007-08 on a per vessel basis, while revenue has increased by only 8%.” (page xii, paragraph 1)
- “Chart 4.5 presents estimated growth in key financial variables over the survey period from 2007-08 to 2011-12. The chart shows that while wages and total expenses have doubled over the last five years, revenue has increased by only around 50% in the same period. As a result, profits in 2011-12 were some 26% lower than in 2007-08.” (page 24, paragraph 7)
- “The chart also highlights the volatility the sector has experienced over the past few years, and also how the sector’s financial position has deteriorated since the global financial crisis. Across 2008-09 and 2009-10 the sector’s profits fell by 27% while at the same time wages costs grew by around 19%.” (page 24, paragraph 8 and Chart 4.5)
- “The sector’s profitability has declined consistently since 2008-09, and expenses have continued to rise. In other words, every year since 2008-09 has placed more strain on the industry’s profitability than the preceding year.” (page 25, paragraph 1)

#### 4.1 BIS Shrapnel analysis- The offshore oil and gas marine support sector is thriving

While survey data can be a powerful tool to examine markets, its usefulness becomes questionable when the participants may be subject to bias in their responses. In this case the vessel operators, members of AMMA who commissioned the report, are the companies responsible for negotiating the bargaining agreements that cover seafarers (integrated ratings) and would want to create an impression that they are under financial strain in order to influence the bargaining environment. A more reasonable approach is to refer to previously published public data as a more reliable source of unbiased information.

**Implications of wage costs on the offshore oil and gas marine support sector**

---

**A review of public data**, including annual reports and official financial statements of companies engaged in the sector, **reveals a different story than described by DAE**. This data and information shows a story of strong revenue and profitability, with the sector portrayed as most likely to enjoy generous returns for shareholders in the future.

Unfortunately, the data extracted from annual reports and corporate financial statements do not separate out revenue and margins between manning personnel and vessels in the sector. This is not truly problematic however, as vessels cannot operate without personnel. Therefore, it is preferred to assess the performance of the sector as they are treated within the annual reports and financial statements (and certainly how an investor would view the performance).

- **Offshore oil and gas marine support service operators continue to experience double-digit revenue growth.** Reviewing 3 of the 19 offshore oil and gas marine support sector's public records revealed estimated aggregate revenues of \$860 million in 2012 corporate financial year, a 200% cumulative increase over five years compared to aggregate revenues of \$413 million in 2007<sup>8</sup>. The average Compound Annual Growth Rate (CAGR) of revenues for the offshore oil and gas marine support sector, for the limited sample, is 14.1% per annum over the period 2007 through 2012. Granted, the sample is small, but the three firms accounted for 38% of total rating staff employed in 2012<sup>9</sup>. **Revenue growth of 200% compared to 32% wage growth over the same period strongly refutes the claim that wage growth is outpacing revenue growth as described by DAE.**
- **More importantly, profits, as demonstrated by EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) have been outstanding over the period.** EBITDA estimates were obtained for the same 3 firms we examined. The average EBITDA CAGR is estimated to be 13.2% per annum from 2007 to 2012. EBITDA includes the wage bill, and clearly illustrates the strong performance of the sector over the period.

**In summary, strong double digit revenue and profit growth, as supported by the public record over the period from 2007 through 2012, strongly refutes the assertion that the offshore oil and gas marine support sector is under economic pressure.**

---

<sup>8</sup> The remaining firms in the oil and gas marine support sector either are private firms that are not required to publicly disclose annual financial results, or are multi-national firms with reporting disclosure that make it difficult to assess individual country and sector performance.

<sup>9</sup> Employment source Unison membership database managed by the MUA.

Implications of wage costs on the offshore oil and gas marine support sector

**5. DAE – RISING WAGES HAVE LEAD AUSTRALIA TO PRICE ITSELF OUT OF A LEADING EDGE POSITION IN THE GLOBAL GAS DEVELOPMENT QUEUE**

- “McKinsey (2013) estimates that a new Australian LNG project would have a cost of supply as much as 30% higher than a matching Canadian or east African project.” (page vii, paragraph 2 and page 15, paragraph 3)
- “The situation was aptly surmised by Gary Gray, the Federal Resources and Energy Minister when commenting on the Maritime Union of Australia’s claim for cooks to be paid up to \$230,000 a year:

*“We’ve got to get things into proportion...Everyone needs to be careful that the costs that are placed on industry through these sorts of wage demands don’t kill the golden goose.”* (page vii, paragraph 3)

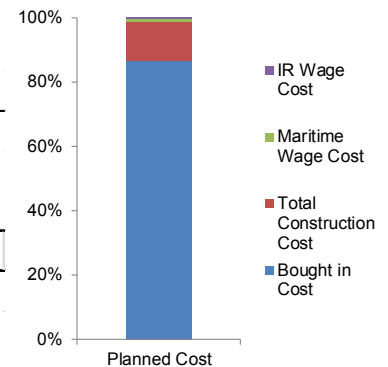
**5.1 BIS Shrapnel analysis – integrated rating wages represent 0.25% of total LNG project costs in Australia**

According to Maritime Employees Training Ltd, the total integrated rating wage cost of a project such as Gorgon is approximately 0.25% of the total project cost as shown in Table 2. Clearly, the impact of wage growth of such a small component of the total project cost is unlikely to present any material threat to viability. The total maritime wage bill is estimated to represent **less than one per cent** of the total project cost, even when taking into account the entire workforce, which includes integrated ratings, engineers, deckhands and officers.<sup>10</sup>

**Table 2: Gorgon Project Cost Estimates**

	US\$Billion	Share of Project Cost
Bought in Cost	37.63	87.50%
Construction Cost (ex IR)	5.27	12.26%
IR Wage Cost	0.11	0.25%
Planned Cost	43.00	100%

Source: Maritime Employees Training Ltd, CIWPAPT model



<sup>10</sup> The CIWPAPT model is designed to work out how many people need to be trained, in what classifications, and when. It uses information supplied by industry, AMSA, Seacare and to some extent the ABS.

The CIWPAPT model uses formulae to calculate the all-up cost of employing workers based on a basic across-industry pay rate, plus on-costs plus other costs such as PPE gear, training, travel and allowances. The all-up cost of employing a maritime worker in the offshore oil and gas sector is estimated to be \$197,761 per annum.

The CIWPAPT model uses the gross value of offshore oil and gas projects and works backwards from that to calculate the number of workers required.

## 5.2 BIS Shrapnel analysis – wages represent 1% or less of potential opportunities to close the competitive gap

Further, a thorough examination of the referenced McKinsey (2013) report that forms the foundation argument that Australia is facing a substantial competitive gap in the LNG gas development queue, reveals a different view:

- Non-labour productivity issues account for 90-93% of the competitive gap between the landed costs in Japan of Australian-sourced LNG compared to a matching North American or East African project.** McKinsey (2013) found that the expected landed costs in Japan in US\$/mmbtu of Australian-sourced LNG would be approximately US\$12/mmbtu for either a greenfield onshore unconventional project or an offshore conventional project. A matching Canadian-sourced onshore unconventional project is estimated to have landed costs in Japan of between US\$9.2-9.5. Similarly, a matching East African-sourced LNG offshore conventional project is estimated to have landed costs in Japan of between \$9.0-10.0. Thus, when facing the nominal landed costs in Japan, an Australian-sourced LNG project contends with a competitive disadvantage of approximately US\$2.0-US\$3.0/mmbtu. This competitive gap is what forms the basis for the quoted 20-30% competitive disadvantage for a new Australian-sourced LNG project. However, this assumes the Australian dollar is fixed at US\$1.0285. As of the time of this response, the Australian dollar has already declined to US\$0.91, eliminating 50% to 75% of the disadvantage. Moreover, according to the McKinsey (2013) report, labour productivity, which includes wages as well as other productivity factors, is estimated to only represent US\$0.20 of the \$2.0-\$3.0 nominal cost gap, or approximately 7-10% of the competitive gap. In other words, non-labour productivity issues account for 90-93% of the competitive gap between a matching Australian-sourced LNG project and a matching North American or East African project.

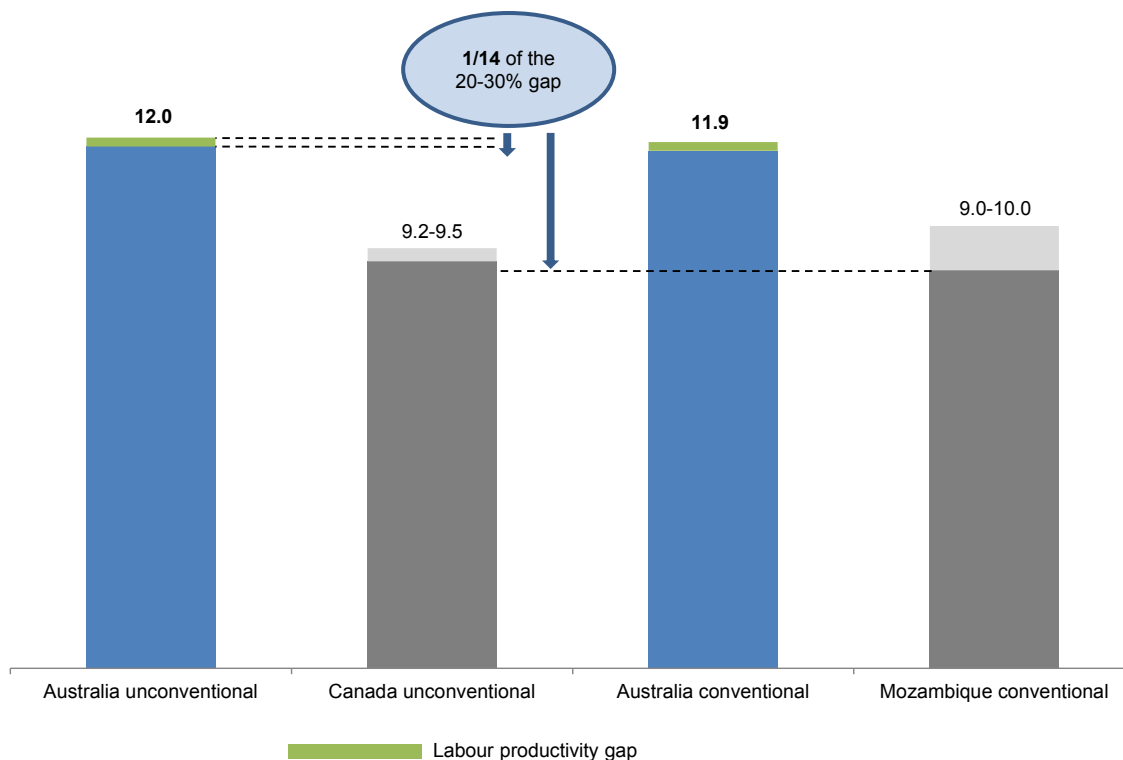
**Table 3: Landed cost for Australian-sourced LNG relative to competitors  
Break even landed costs in Japan in US\$/mmbtu  
Exchange rate fixed at US\$1.0285**

	Onshore Unconventional	Offshore Conventional
	US\$/mmbtu	US\$/mmbtu
Australian-sourced LNG project	12	11.9
Canadian-sourced LNG project	9.2-9.5	NA
East African-sourced LNG project	NA	9.0-10.0
Competitive Gap	2.5-2.8	2.0-3.0
Competitive Gap (%)	26%-30%	20%-30%
Labour Productivity Share of Gap	0.2	0.2
<b>Labour Productivity Share of Gap (%)</b>	<b>7%-8%</b>	<b>7%-10%</b>
<b>Non-Labour Productivity Share of Gap</b>	<b>92%-93%</b>	<b>90%-93%</b>

Source: McKinsey (2013), BIS Shrapnel analysis

Implications of wage costs on the offshore oil and gas marine support sector

**Chart 3: Labour productivity contribution to landed LNG competitive cost gap**  
Break even landed costs in Japan in US\$/mmbtu, Exchange rate US\$1.0285



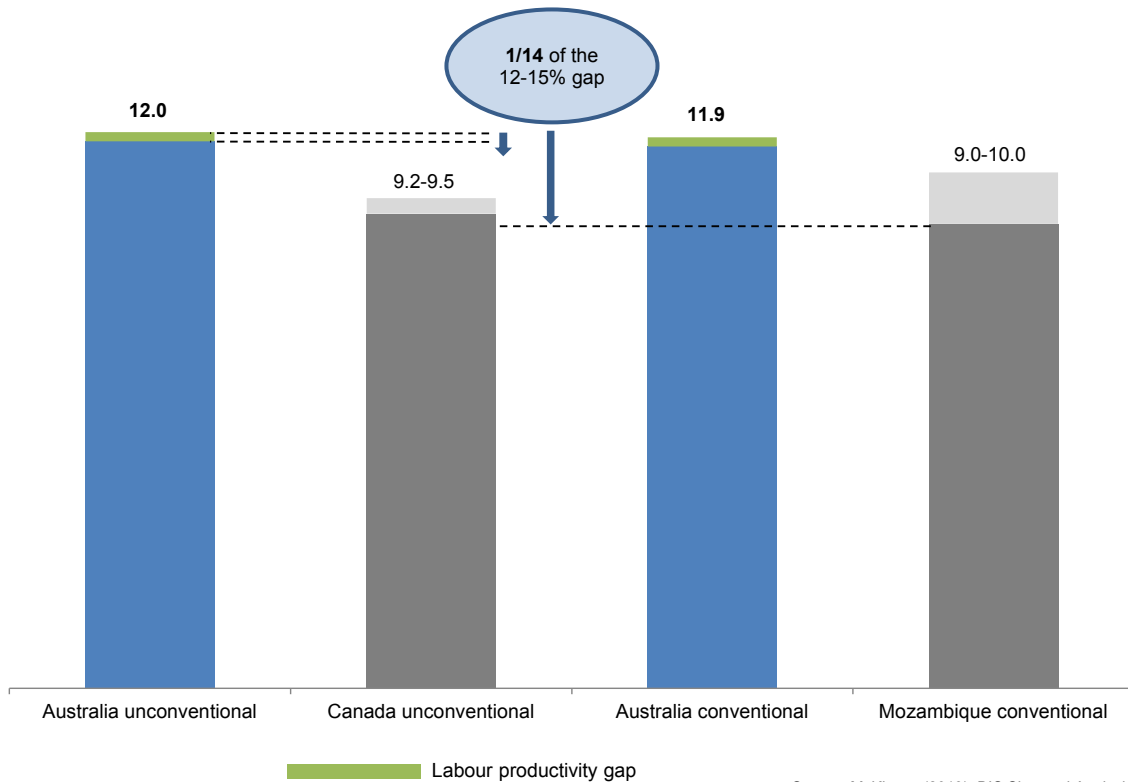
**Table 4: Landed cost for Australian-sourced LNG relative to competitors**  
Break even landed costs in Japan in US\$/mmbtu  
Exchange rate fixed at US\$0.91

	Onshore Unconventional US\$/mmbtu	Offshore Conventional US\$/mmbtu
Australian-sourced LNG project	10.6	10.5
Canadian-sourced LNG project	9.2-9.5	NA
East African-sourced LNG project	NA	9.0-10.0
Competitive Gap	1.1-1.4	0.5-1.5
<b>Competitive Gap (%)</b>	<b>12%-15%</b>	<b>5%-17%</b>
Labour Productivity Share of Gap	0.18	0.18
Labour Productivity Share of Gap (%)	7%-8%	7%-10%
Non-Labour Productivity Share of Gap	92%-93%	90%-93%

Source: McKinsey (2013), BIS Shrapnel analysis

Implications of wage costs on the offshore oil and gas marine support sector

**Chart 4: Labour productivity contribution to landed LNG competitive cost gap**  
**Break even landed costs in Japan in US\$/mmbtu, Exchange rate US\$0.91**



- Non-wage related labour productivity enhancements represent 95% of the recommended labour productivity improvement opportunities.** Based on data supplied in the McKinsey (2013) report, our analysis shows that the vast majority of labour productivity improvement opportunities are related to site productivity improvements (including lean construction). Specifically:

“improving management processes and systems to assure equipment and materials are available on time, by insuring adequate supervision, and by fully removing waste in activities with a focus on compressing the critical path. Improving training for supervisors and project managers is a must to capture increased productivity.”(page 19, paragraph 5)

By implementing the above suggestions, it is estimated that labour productivity could improve by US\$0.8-US\$1.40. McKinsey goes on to say that, in aggregate, labour productivity improvements (including slower wage growth) could yield a labour productivity landed cost reduction of US\$0.9-US\$1.60. In other words, non-wage related labour productivity enhancements represent 88% of the recommended labour productivity improvement opportunities. Meanwhile, improvements in wage growth could account for approximately 4-5% of potential labour productivity improvement opportunities.

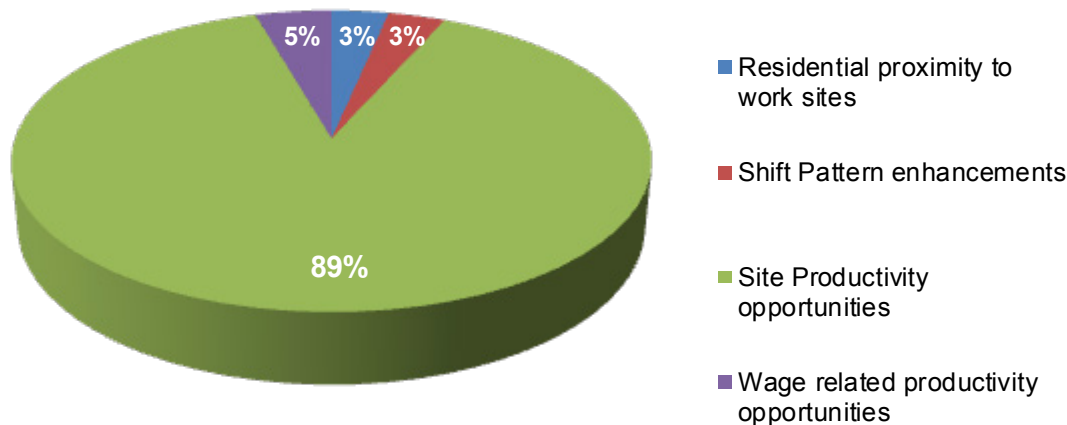
Implications of wage costs on the offshore oil and gas marine support sector

**Table 5: Labour Productivity Landed Cost Savings Opportunities**  
 Exchange rate fixed at US\$1.0285

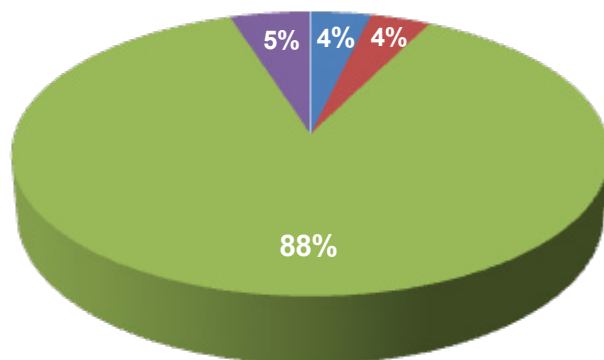
	Cost Savings
	US\$/mmbtu
A) Aggregate labour productivity land cost reduction potential	0.9-1.6
B) Residential proximity to work sites	0.03-0.06
C) Shift Pattern enhancements	0.03-0.06
D) Site Productivity opportunities (non-wage related)	0.8-1.4
E) Wage related productivity opportunities (E=A-B-C-D)	0.04-0.08
F) Wage related productivity cost saving share % (E/A)	5% or less
<b>Non-Wage related productivity improvement opportunities (1-F)</b>	<b>95%+</b>

Source: McKinsey (2013), BIS Shrapnel analysis

**Chart 5: Labour productivity landed LNG cost savings opportunities**  
 Low scenario, US\$0.90 in savings



**Chart 6: Labour productivity landed LNG cost savings opportunities**  
 High scenario, US\$1.60 in savings



Source: McKinsey (2013), BIS Shrapnel analysis

\*Totals in charts may exceed 100% due to rounding



Implications of wage costs on the offshore oil and gas marine support sector

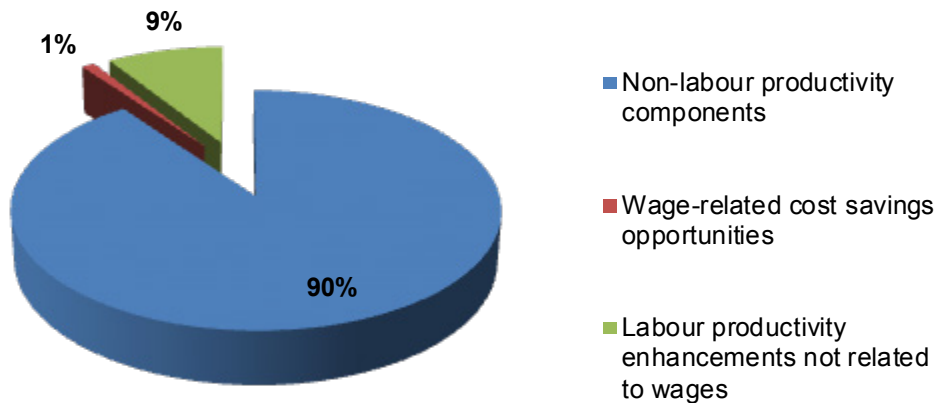
- The combined result implies that non-wage related competitive improvements account for more than 99% of the potential recommended cost improvements when comparing an Australian-sourced LNG project to a matching North American or East African project.

**Table 6: Relative recommended contribution to Cost improvements  
 Exchange rate fixed at US\$1.0285**

	Cost Savings
A) Labour productivity Share of Gap (Table 2)	7%-10%
B) Wage-related productivity opportunities (Table 3)	<5%
C) Wage-related landed cost in Japan savings share (C=A*B)	<1%
D) Non-wage related landed cost savings opportunities (1-C)	>99%

Source: McKinsey (2013), BIS Shrapnel analysis

**Chart 7: Relative recommended contributions to cost improvements  
 Exchange rate fixed at US\$1.0285**



Source: McKinsey (2013), BIS Shrapnel analysis

This analysis shows that wages are not the driver of the competitive gap that DAE and the AMMA are implying. In fact, if Australia is seeking to improve its competitive position in the LNG gas development market queue, its energies are best focused on areas other than wages.

Implications of wage costs on the offshore oil and gas marine support sector

**6. THE EXCHANGE RATE IS FORECAST BY BOTH DAE AND BIS SHRAPNEL TO CLOSE THE COMPETITIVE GAP BY 2017 TO 2108**

Finally, BIS Shrapnel concurs that the exchange rate is a key driver of Australian LNG competitiveness. The highly quoted 20-30% higher landed cost in Japan of LNG supply in Australia compared to a matching Canadian or East African project assumes the Australian dollar is **fixed at US\$1.0285**. As of the time of this writing, the AUD has already fallen to **US\$0.91** and is expected to continue to trend towards historical averages as the wider investment boom eases and the United States economy continues to strengthen. **At US\$0.91, Australian LNG projects have already closed the highly-touted 20-30% gap by approximately 50% to 56% for an Australian unconventional gas project compared to an unconventional Canadian project (used by McKinsey as a proxy for North America).** Based on the McKinsey (2013) report data, the gap in competitiveness will be eliminated when the Australian dollar reaches approximately \$US 80 cents, assuming all other factors are held constant.

**BIS Shrapnel makes several key points in relation to the exchange rate, which are a key driver of international competitiveness:**

- **The Australian dollar is already 14% weaker** than the assumptions used in the Mckinsey (2013) report
- **The competitive gap** between an unconventional Australian LNG project and an unconventional Canadian project **has been reduced from 20-30% to 12-15%** through recent exchange rate movements alone
- **The competitive gap is estimated to be eliminated when the AUD reaches US\$0.80, all else remaining constant**
- **BIS Shrapnel’s forecast is for the exchange rate to fall to US\$0.80 by 2017/18 and average US\$0.80 over the following five years to 2023.**
- **Movements in the exchange rate can easily outweigh the impact of other competitive factors**

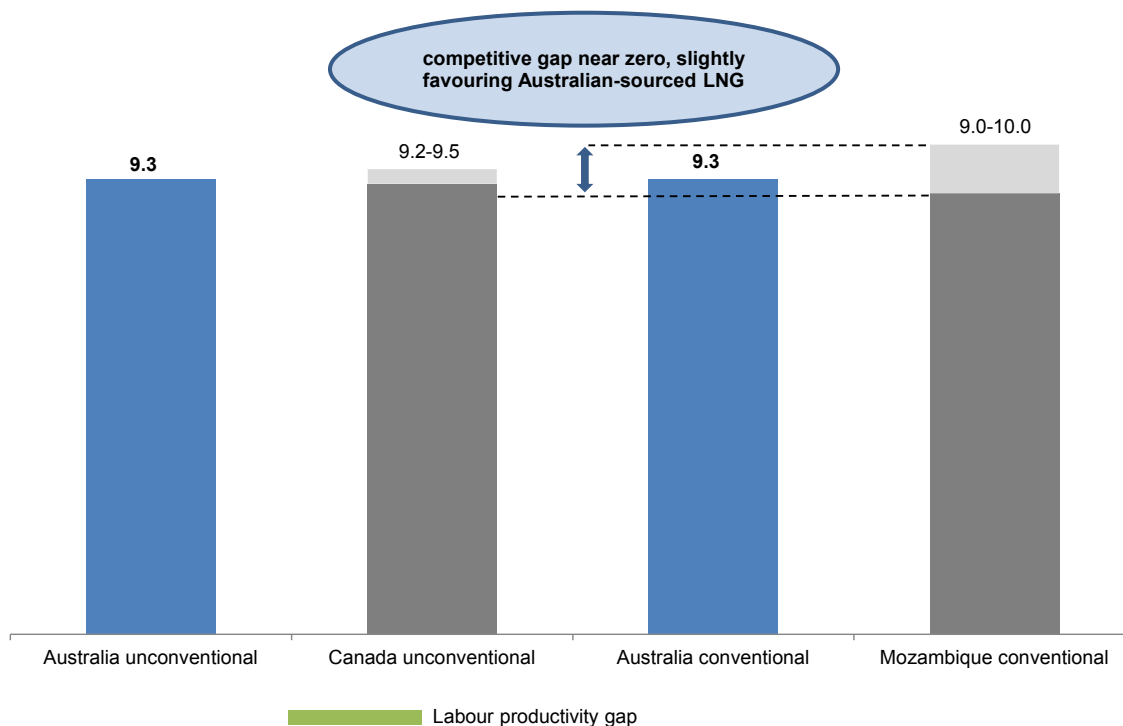
**Table 7: Landed cost for Australian-sourced LNG relative to competitors  
Break even landed costs in Japan in US\$/mmbtu  
Exchange rate fixed at US\$0.80**

	Onshore Unconventional US\$/mmbtu	Offshore Conventional US\$/mmbtu
Australian-sourced LNG project	9.3	9.3
Canadian-sourced LNG project	9.2-9.5	NA
East African-sourced LNG project	NA	9.0-10.0
Competitive Gap	~0	~0
<b>Competitive Gap (%)</b>	<b>~0</b>	<b>~0</b>
Labour Productivity Share of Gap	~0	~0
<b>Labour Productivity Share of Gap (%)</b>	<b>~0</b>	<b>~0</b>
Non-Labour Productivity Share of Gap	~0	~0

Source: McKinsey (2013), BIS Shrapnel analysis

Implications of wage costs on the offshore oil and gas marine support sector

**Chart 8: Labour productivity contribution to landed LNG competitive cost gap**  
 Break even landed costs in Japan in US\$/mmbtu, Exchange rate US\$0.80



Source: McKinsey (2013), BIS Shrapnel Analysis

How relevant is it to entertain an exchange rate of \$US0.80?

Given that both Deloitte Access Economics and BIS Shrapnel have recently published that the Australian dollar is expected to decline towards \$US0.80 by 2017 to 2018, the exchange rate is highly relevant.

**Table 8: Exchange rate forecasts 2013–2018**  
 \$US per \$A, June Qtr

	2013	2014	2015	2016	2017	2018
Deloitte Access Economics	1.043	0.926	0.896	0.847	<b>0.816</b>	<b>0.802</b>
BIS Shrapnel	0.928	0.89	0.9	0.89	<b>0.83</b>	<b>0.78</b>

Source: Deloitte Access Economics *Business Outlook* (June 2013), BIS Shrapnel *Long Term Forecasts 2013-2028*

**This implies that both DAE and BIS Shrapnel are forecasting that competitive gap on the landed cost of Australian-sourced LNG in Japan will likely be eliminated within the next five years through exchange rate movements alone.**

## Implications of wage costs on the offshore oil and gas marine support sector

---

### 7. CONCLUSION

BIS Shrapnel's critique of Deloitte Access Economics (DAE) report entitled, "*Analysis of the offshore oil and gas marine support sector*" has found the report misrepresented, misinterpreted, or completely omitted relevant information to reach its conclusions.

Our critique of the DAE report reveals that the methodology that forms the backbone of their analysis, a survey of 5 out of 19 vessel operators, fails to meet accepted standards of survey methodology. While survey data can be a powerful tool to examine markets, its usefulness becomes questionable when the participants may be subject to bias in their responses. In this case the vessel operators, members of AMMA who commissioned the report, are the companies responsible for negotiating the bargaining agreements that cover seafarers (integrated ratings) and would want to create an impression that they are under financial strain in order to influence the bargaining environment. A more reasonable method is to refer to previously published public data as a more reliable source of unbiased information. Therefore, BIS Shrapnel's methodological approach for this response is based on a review of publicly available data.

Second, we examined DAE's evidence and claims that integrated rating wage growth has easily outpaced growth in the wage price index for all workers over the last decade. However, this is not a fair comparison as the all industries wage price index includes a heavy weighting in industries such as retail that have historically maintained thin margins and do not face skilled labour constraints. The wage price index is further weighed down by including non-resource boom states that have not experienced the same rapid growth in demand for skilled employment as the resource states. To remedy this, BIS Shrapnel compared wage growth for integrated ratings wage growth on Schedule 1 and Schedule 8 vessels to industries of a similar nature and facing similar constraints such as mining, and construction. BIS Shrapnel's analysis found that when placed against more relevant indexes, integrated rating wages growth has lagged behind construction and mining wage index growth over the period 2005 to 2013.

Further, we examined the accuracy of claims attributed by DAE to Gary Gray, the Federal Resources and Energy Minister, that cooks are paid up to \$230,000 per year. Our analysis of the public record finds that DAE's claim that cooks are paid \$230,000 per year is highly exaggerated by a magnitude of 40%.

Third, a review of public data, including annual reports and official financial statements of companies engaged in the sector, reveals a different story than described by DAE. Revenue growth of 200% compared to 32% wage growth over the same period strongly refutes the claim that wage growth is outpacing revenue growth as described by DAE. More importantly, profits, as demonstrated by EBITDA (Earnings before Interest, Taxes, Depreciation and Amortisation) have been outstanding over the period. BIS Shrapnel's analysis of available public data found the average EBITDA CAGR over the five years to 2012 was approximately 13.2%. EBITDA includes the wage bill, and clearly illustrates the strong performance of the sector over the period. In summary, strong double-digit revenue and profit growth, as supported by the public record over the period from 2007/08 through 2011/12, strongly refutes the assertion that the offshore oil and gas marine support sector is under economic pressure.

Fourth, we carefully examined DAE's implication that rising wages have lead Australia to price itself out of a leading edge position in the global gas development queue. Again, DAE relied on an expert source to base their analysis and conclusions.

---

**Implications of wage costs on the offshore oil and gas marine support sector**

---

However, it is imperative to place the wage bill costs for a major LNG project such as Gorgon, in relation to other costs to develop the project. According to Maritime Employees Training Ltd, the total integrated rating wage cost of a project such as Gorgon is estimated to comprise only 0.25% of the total project cost. Clearly, the impact of wage growth of such a small component of the total project cost is unlikely to present any material threat to viability.

Further, a thorough review of the McKinsey (2013) report shows that DAE misinterpreted the report and its implications. BIS Shrapnel found that wage related issues accounted for less than 1% of the potential recommended cost improvement opportunities available to Australian-sourced LNG projects.

This analysis shows that wages are not the driver of the competitive gap that DAE and the AMMA are implying. In fact, if Australia is seeking to improve its competitive position in the LNG gas development market queue, its energies are best focused on areas other than wages.

Finally, we found that competitive differences used by DAE and McKinsey (2013) employed a fixed exchange rate of US\$1.0285. As of the time of this writing, the Australian dollar has already fallen to \$US0.91, and is forecast by both BIS Shrapnel and DAE to fall towards \$US0.80 by 2017 to 2018. Therefore, we tested the competitive gap between Australian-sourced LNG projects relative to competitors under three different exchange rate scenarios that are more in alignment with current and future macroeconomic conditions. The tests reveal that under current conditions, the competitive gap is already reduced by approximately 50-56% and will be essentially eliminated by the time the Australian dollar reaches \$US0.80.

**Implications of wage costs on the offshore oil and gas marine support sector**

---

**REFERENCES**

- BIS Shrapnel (2013), *Long Term Forecasts Australia 2013–2028: 39<sup>th</sup> Edition*, July 2013,
- Compass Group – Woodside (Goodwyn, North Rankin & Angel) Enterprise Agreement 2010
- Compass Group & AWU - Transocean (offshore drilling rigs) Enterprise Agreement 2011-13
- Deloitte Access Economics (2013), *Analysis of the offshore oil and gas marine support sector*, commissioned by the Australian Mines and Metals Association, August 2013
- Deloitte Access Economics (2013), *Business Outlook: Construction cliff looms*, June 2013
- McKinsey & Company (2013), *Extending the LNG boom: Improving Australian LNG productivity and competitiveness*, May 2013
- Tidewater Marine Australia Pty Ltd Integrated Ratings, Cooks, Caterers, and Seafarers (Offshore Oil and Gas) Enterprise Agreement 2010
- Tidewater Marine Australia Pty Ltd Integrated Ratings, Cooks, Caterers, and Seafarers Agreement 2006-09