



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON INDUSTRY, SCIENCE AND TECHNOLOGY

Reference: Australian industry participation in major infrastructure projects

PERTH

Thursday, 30 January 1997

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON INDUSTRY, SCIENCE AND TECHNOLOGY

Members:

Mr Reid (Chair)

Mrs Bailey	Mr Jenkins
Mr Bob Baldwin	Mrs Johnston
Mr Beddall	Mr Allan Morris
Mr Martyn Evans	Mr Nugent
Mr Richard Evans	Mr O'Connor
Mr Forrest	Mr Zammit
Ms Gambaro	

The committee is undertaking an inquiry into Australian industry participation in major projects. The committee will examine several projects in turn as case studies of the capacity and capability of Australian industry to participate in such major projects. These projects may include both those that have achieved high Australian content as well as those that have not. As the first stage of this inquiry the committee will examine the North-West Shelf gas project.

In particular the committee is requested to examine:

the capacity and capability of Australian industry to participate in design and construction work associated with major projects

the actual level of Australian participation achieved in major projects by different industry areas including design, project management, and equipment supply

the potential for export earnings for Australian industry in similar projects overseas

the potential to achieve improved innovation, technology transfer and skills development in Australian industry through more effective links with major projects and firms associated with these projects

the broader economic impact for Australia of major projects

the policies currently adopted in Australia and other countries relating to the establishment and operation of major development projects; and

the policies and mechanisms that should be adopted by government in Australia to enhance the level of Australian industry participation in major development projects and to maximise the benefits to the Australian people from such projects.

WITNESSES

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Present

Mr Richard Evans (Chair)

Mrs Bailey

Mrs Johnston

Ms Gambaro

Mr Allan Morris

The committee met at 9.44 a.m.

Mr Richard Evans took the chair.

CHAIR—Welcome, ladies and gentlemen, to the public hearing of the House of Representatives Standing Committee on Industry, Science and Technology for its inquiry into Australian industry participation in major projects, focusing on the North West Shelf project.

This inquiry was referred to the committee by the Minister for Industry, Science and Tourism on 20 September 1996 and follows on from a similar inquiry, commenced by the committee towards the end of 1995, which lapsed when the House of Representatives was dissolved. The present inquiry, like the previous one, will focus on the North West Shelf project.

The committee will inquire into and report on the level and nature of participation by Australian companies in the project, their capacity and capability for such participation, the key access points for Australian involvement and the net benefits to Australia from greater local participation. We have been asked to advise the government on policies that could enhance the benefits for Australia.

When launching the initial inquiry, the committee wrote to a broad range of individuals and organisations which it believed had an interest in the subject matter of this inquiry. On relaunching the inquiry, we wrote again to those who had made submissions. Over 40 submissions and 30 exhibits have been presented for the committee's consideration to date.

Although this committee does not require witnesses to take an oath, the proceedings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House of Representatives. This is a public hearing and members of the public are welcome to attend throughout the proceedings. However, if any of the witnesses believes that any matters they wish to discuss would be better heard in camera, they may ask the committee to consider taking such evidence in private.

[9.45 a.m.]

HARRIS, Mr James, General Manager Commercial and Business Development, United Construction Pty Ltd, Lot 449 Mandurah Road, Kwinana, Western Australia 6167

CHAIR—I welcome Mr Harris from United Construction. The committee has received your written submission and has authorised its publication. Would you like to make any additions or alterations to your submission?

Mr Harris—I would like to go through that again and re-emphasise some particular points.

CHAIR—I am very happy for that to happen. Mr Harris, please proceed.

Mr Harris—First of all, my personal background is that I have worked for nine years with United Construction Pty Ltd. Prior to that I worked for nine years with ALCOA of Australia, which is probably well known to you. United Construction may not be known to you. It is currently a publicly listed company. It has been in operation for approximately 25 years. It was founded by four Italian immigrants. It is the good old Australian success story—four migrants came to Australia, started the company and it is now a publicly listed company with a turnover in excess of \$170 million a year. We employ over 1,500 people Australia wide. Quite a number of those are in the oil and gas petrochem industries. Of those 1,500, in excess of 100 are apprentices. We have made a strong commitment in terms of training for the industry.

We have participated in a number of fabrication construction projects in the North West Shelf and petrochem throughout Australia. In total, we would have turned over in excess of \$300 million as a result of those projects proceeding. If I may show members of the committee who are not aware the sort of work that we have done. We have built the drilling modules for the Goodwyn 'A' platform with in excess of 2,000 tonnes of relatively complex steel. We have carried out upgrade work on the Griffin FPSO in Fremantle. One of our most recent contracts is a \$60 million contract on the LPG facilities at Karratha for Woodside.

So the work that we have done has ranged from very simple fabrication to complex fabrication of exotic materials such as superduplex, stainless steel, chrome molybdenum and these sorts of modules that you can see. As well as the Woodside work, we have carried out work for BHP Petroleum with the manufacture of processing skids for operations in the Timor Sea.

Participation in these projects has enabled our company and our staff to develop and improve their expertise. It is fair to say that the quality standards that we are capable of now producing have been as a result of participating in those projects.

Projects such as the drilling modules for Goodwyn 'A', which is a world-class facility, are proof that Australian industry can produce those quality standards. That particular project, which as I said is approximately 2,500 tonnes of fabricated steel, was also one of the only sections of that project that was completed on time. I think you are well aware of the history of that project. When it was finally being installed, they had foundation problems, but that section of the project was finished on time and was constructed in Australia.

I believe Australian industry, however, is disadvantaged in two specific areas in pursuing this sort of work in competition with the international market. The international market has lower labour costs. By 'international' I am talking of places such as South-East Asia. There are minimal government impacts on employment such as payroll tax and compulsory superannuation.

In particular there are the government impacts. For example, in Malaysia and Indonesia there are government subsidies for some of these manufacturers, but there are also import restrictions. So, whereas someone in Malaysia or Indonesia can freely export to Australia, the same is not true of exporting fabricated steel products to places like Indonesia and Malaysia. Those countries impose import duties for the protection of their local industry. There are also government subsidies on exports for places like Korea. They also have government subsidies for the development of facilities. I will not go into that too much because that is the thrust of the CCI submission, which follows mine.

Another specific advantage that the international competition has is the ability to purchase materials considerably cheaper than we can in Australia. As part of my career with United Construction I spent two years in South-East Asia working out of Singapore and running fabrication works in Indonesia. In Singapore I could buy BHP steel \$150 a tonne cheaper than I could buy it in Australia. As well as the other impacts, the raw material costs are cheaper overseas for the same products we can buy here in Australia.

So I guess the thrust of my submission is that the level playing field that we have heard talked about in the past just does not exist. With the upcoming surge of developments on the North West Shelf—although that is the focus of this inquiry, I guess we should look a little broader—those developments provide an opportunity for growth for companies such as mine. We can only maximise these opportunities to replace imports, provide additional employment and training, continue to upgrade our skills base and create the potential for companies such as United Construction to export that expertise if the federal government declares a local content policy similar to that of its near neighbours—I hope I am not talking about anything too radical here, Mr Chairman—and ensures that the development company's requirements for projects in Australia are applied to internationally bid packages.

Having worked in Indonesia, I have seen different standards of quality and safety applied to the contractors over there than I see applied in Australia. I believe that the standards that are applied in Australia are the correct ones for both quality and safety. I would not suggest any downgrading of those requirements, but in my experience those requirements are not applied when Australian companies purchase overseas.

Also the federal government needs to encourage local material suppliers to ensure that world competitive prices are available on internationally bid projects. This occurs in some instances, for instance, when we were bidding on the Gladstone smelter in Queensland, a steel company there, because it went to international tender, provided cheaper steel prices to the market.

The federal government should take a broader view on the longer term and downstream benefits of maximising Australian content and its potential for import replacement to reduce the trade deficit, expansion of employment opportunities and training, and increasing local capability and capacity. We are happy to compete internationally if the terms are equal. Currently we do not believe they are.

I would also like to say that the Chamber of Commerce and Industry has a submission to make following this. My company supports that submission in terms of infrastructure development. We also support the Heavy Engineering Manufacturers Association submission in terms of coordination of government policy.

CHAIR—Thank you, Mr Harris. I would like to get some further explanation from you about your company's participation in the North West Shelf. You mentioned that participation equals an increase in quality within your own company. What has it meant generally for your company to have been involved with the North West Shelf? If you had not got the North West Shelf project, what level of company development would you be at now? Has it been a significant help to you?

Mr Harris—Most certainly. The sorts of projects we were participating in before were things like iron ore alumina processing. It is the next step up in terms of quality and skills. For instance, in the iron ore industry most of the work you would be doing is in carbon steel—just straight industrial steel fabrication and construction. With the involvement in this, we have been doing things like stainless steel, superduplex and all the exotic materials.

Those skills, once in the organisation, do not depart. Yes, you have to requalify welders periodically to work on that same material, but they have that inherent skill.

CHAIR—Have you had an increase in your work force?

Mr Harris—Most definitely.

CHAIR—What percentage increase?

Mr Harris—There have been years in our past where 60 to 70 per cent of our work has been on this sort of work. For the Griffin venture shutdown in Fremantle we employed short-term something like 600 people working around the clock. I guess my main argument is that we have those skills in Australia. We have proved our ability to do it, but more and more the work seems to be going offshore.

CHAIR—Does Australia have an international reputation for quality work?

Mr Harris—Most certainly, but in my experience the exports are minimal. For instance, when I was working in Singapore and Indonesia we did work for Woodside in Indonesia, primarily using Australians to train the locals. Yes, we have an international reputation.

CHAIR—You are inferring that there is an increasing need for skilled labour within Australia. Is there skilled labour available?

Mr Harris—Currently we are managing to source it, but there are a couple of projects going on now, such as Olympic Dam in South Australia and the BHP hot briquetted iron plant of which we have a significant share of the contracting work, that effectively require a work force of thousands.

There was a period going back three, four or five years where the training slipped right away. People

could not employ apprentices because of the competitiveness of the market and their effectively being relatively non-productive. That has changed now and we are committed to training more people. How we see the training issue is we are currently employing 100 apprentices. We do not expect to retain all of those guys. Some of them will leave, but it is adding to the pool.

CHAIR—About eight per cent of your work force is apprentices. Are other companies within the industry employing apprentices at the same level?

Mr Harris—Our competition and the rest of the industry ranges from a small fabrication shop employing, say, 20 or 30 people where the managing director is on the shop floor to large contracting companies that do not have an established work force. They will take a project on and employ the people for that and then let them go at the end of the project. United Construction is different in that we have workshop facilities of 18,000 square metres. Currently in the workshops we are employing 350 or 400 people. So we have a core team that moves from project to project.

CHAIR—You mentioned the lower labour costs overseas. Is it your view that international buyers and even Australian buyers are prepared to risk standards by using lower labour costs?

Mr Harris—Apparently, because a lot of fabricated material is currently coming in from overseas. But lower labour costs per se do not necessarily result in a lower cost if there is lower productivity. Again in my experience I would match Australian trade skills to any in the world in terms of productivity. You may get a lower rate per hour, but you get a lower level of productivity in a lot of places. Rapidly that is changing. The skills are upgrading in some of those Third World countries.

CHAIR—You mentioned that it is cheaper to buy Australian steel overseas than it is locally. I guess the same could be said for wool fabric as well; it is cheaper to buy wool overseas than it is locally. Have you got a view as to why that is the case?

Mr ALLAN MORRIS—BHP dumps.

Mr Harris—I would not agree with that, perhaps we should rephrase it. Overseas they are competing in an international market and must price to meet that market. In Australia, it is very close to a monopoly situation. Whereas we could buy steel overseas, for most of the projects, because of the lead time and the quantities for particular sections, we do not have the ability to do that.

CHAIR—So you are in a captive market here. Are there any restrictions for you, other than timing and scheduling, to buy steel from overseas?

Mr Harris—No. In a project in which we are becoming involved right now, which is the Olympic Dam one, one of their commitments is to buy steel from Korea because it is cheaper and because they can order the quantities. As Australians, we should be concerned about that.

Mrs BAILEY—Mr Harris, I am interested in your submission where you were wanting federal government intervention in local content policy. Could you firstly explain to this committee how that policy

of local content works in overseas countries and then perhaps put a little more flesh on the bones as to what you are wanting the federal government to do regarding a local content policy.

Mr Harris—Certainly. My personal belief is that even if it is not statutory, it should be encouraged. Western Australia has a local content policy. Some criticisms are that it has insufficient teeth. If it provides a basis for encouraging large companies to increase their local content, that is very positive.

In places such as Indonesia not only is there a restriction on import of materials and an import tax on anything that could be done within that country but there are other impediments. I guess it is perhaps similar to the Japanese model whereby if they do not want you to import a particular product, the bureaucracy can stop you one way or another. In Malaysia and Indonesia there are specific import duties on fabricated products going in.

Again, in the brief time I was there, which was only two years, as soon as an industry developed in Indonesia, they dropped the bar on imports. One particular example that I saw was on pressure vessels, used for things such as separating oil and water, oil and sand, oil and gas and that sort of thing. As soon as they felt that they had the ability to produce these in Indonesia, the import duty went on. People such as the Americans out of Houston, who were previously exporting everything from the states, were forced to go to those places and manufacture there. You can achieve the quality standards anywhere with the training and the supervision. Does that fill it out sufficiently?

Mrs BAILEY—Yes.

Mr Harris—I am not advocating statutory requirements; I am advocating policies whereby companies are encouraged to increase their local content. What concerns me is that there is an increasing trend to do it overseas.

CHAIR—I need a clearer definition on that. Are you suggesting—you mentioned the American experience—that Australian companies would consider setting up their own infrastructure overseas to overcome the impediments placed upon it locally?

Mr Harris—No, in fact, I was saying the opposite. I was saying that in Indonesia, as soon as the country felt that it had the technical capability to produce these items, they stopped the imports and got the construction fabrication in their own country rather than importing finished products.

Mrs BAILEY—You have also mentioned in your submission that you want the federal government to take a role in increasing local capability and capacity. By that, do you mean the level of skill and training of a work force? What exactly do you mean by that?

Mr Harris—That is some of it. The other thing is that no single project for a private company justifies the expenditure. Particularly here I am talking about the development at Jervoise Bay that the CCI will be talking about. One of the problems in that area is that you cannot finance the development of the infrastructure on a single project. Once it is in place, there is no guarantee that you will get the work but the reverse is that if the infrastructure is not there, you definitely will not get the work.

Mr ALLAN MORRIS—The Chamber of Commerce and Industry suggested that Western Australia has the highest ratio pro rata of quality assured organisations in Australia. How does that relate to you? Do you find that is the case now? What standards are you qualified to?

Mr Harris—Our basic quality accreditation is ISO 9001, which is for the engineering and the manufacture. That for us is a baseline. It does not necessarily win us more work having that accreditation. Quite often, we see jobs being lost to companies that do not have the accreditation. How it works, in effect, is that the quality accreditation runs in a number of tiers: we have our quality assurance manual in a base summary document; we have our quality procedures that cover all the aspects of engineering and manufacture; and we have project specific quality plans, which run into the detail on a specific project of inspection test plans and the real detail, say, of tracking welders, ambient temperature on the day that you did the weld and that sort of thing.

For me, the ISO accreditation is a starting point. The accreditation that we have and our basic quality system is part of what we use to run the job. But the quality requirements are a lot more stringent and specific on oil and gas jobs than a part of our accreditation.

Mr ALLAN MORRIS—And your suppliers, your subcontractors?

Mr Harris—Generally they are ISO accredited, but, again, we conduct our own assessments on them. We had instances of consumables, say, on a chrome molybdenum job for the BP refinery where they came from an accredited supplier but it was the wrong material in the bag. It is not a guarantee of perfection; it is a method of achieving the quality standards required.

Mr ALLAN MORRIS—I will go slightly further in terms of government policies or corporate policies. After all these years we have made some progress in the country in this but there is obviously a lot more we could have done. If we look at the major driver for, say, defence projects, it was the fact that there was a requirement that the prime contractor was an Australian company in both design terms and in manufacturing terms. So the joint ventures meant that an Australian based company was the prime. That has not applied in this industry at all, but could it?

Mr Harris—Why not? What makes defence any less strategic for this country than resource development?

Mr ALLAN MORRIS—With defence, the government paid the money so it could actually say what it did and it could insist on the transfer of intellectual property, for example, from Rockwells in America to Australia or from Kockums in Sweden or from wherever into Australia. It is a bit harder for the governments to tell the companies to do that but until that happens, all these things will just be the navvies on the side.

Mr Harris—I personally see that the resources of the country belong to the country, not necessarily only to the developer.

Mr ALLAN MORRIS—So how could you do it? How could you apply that kind of model of saying, for example, that the design at Wandoo was done here but the manufacture was done at Keppels? How could

you say that the prime contractors, whilst they may use overseas technology and overseas skills and joint ventures and all the rest of it, would be based here?

Mr Harris—I am reluctant to advocate a statutory requirement. I am more interested in policies and encouragement.

Mr ALLAN MORRIS—What kind of policies could do that? In our case because the government spent the money, it can control it but in this case you cannot. What kind of policy could actually encourage that? Governments cannot make a company do things, as you would understand. What kind of policy could lead to the prime contractors being based here? Rather than using a Norwegian company as a consultant to design stuff or a Dutch company or an American company, and using our very bright engineers and designers to help do the work, how can we actually say—

Mrs BAILEY—Is it incentives?

Mr ALLAN MORRIS—What kind of policy could do it?

Mr Harris—Maybe not incentives; perhaps conditions. Maybe what you are trying to lead me to and what is perhaps the correct answer is, as part of the development approval process, having a minimal level of local content. One of the things that the development companies are concerned about is having to meet a statutory requirement and not being able to do that.

Mr ALLAN MORRIS—But what they say is, 'If you do that, we will get second-class performers doing second-class work on major projects and the cost will go up and we will be in all kinds of trouble.' We have heard this for the last 20 or 30 years. We were told that we could not build a submarine and we could not build a battleship. We had to build it in America first and come over here. We have been told for the last umpteen years that we cannot do this stuff. Defence has proven that it can. There are a lot of learning curves involved, mind you. But in the commercial world that same argument has run that was being run 20 years ago when we brought DDGs back in the 1960s or the early 1970s. But your industry is involved in this whole process. What kind of policies could help to change that attitude so that Australian people could, in fact, do it?

Mr Harris—First of all, with respect, I would suggest that Australian industry has proved that it has the capability to do it. There are examples in that booklet of what we have done to world class standards with a better schedule delivery than what overseas companies have done. What sort of policies? The only thing I can immediately think of is a set requirement of a certain percentage of local content.

Mr ALLAN MORRIS—But that is just dollar terms.

Mr Harris—But that dollar term raises your skills level because—

Mr ALLAN MORRIS—No, it does not necessarily. We have done this before. We said they could put in X number of dollars. For example, the Americans could say to us, 'Look, we'll give you \$40 million worth of work. Australia makes great castings. You are a terrific castings country.' We were after electronics and avionics and they wanted to give us castings. Unless you can get to the qualitative issues, you are really

going to end up with the navy work.

Mr Harris—I appreciate what you are saying.

Mr ALLAN MORRIS—You will get a few dollars out of it, but you will never ever own the technology, the design or the intellectual property. You will never ever be able to sell that to another country.

CHAIR—Mr Harris has suggested that it is for some incentive to get into local content.

Mr ALLAN MORRIS—He has not answered the question yet. After you get the *Hansard* and you see what I am saying and you have a look at it, you might want to ponder that, because making it a requirement will not work because they will say—

Mr Harris—Here is the rubbish work in the lower tiers, yes.

CHAIR—Just to extend on what we were saying about local content, what do you define as local content and how much local content should there be in a project?

Mr Harris—That is where it is hard to be prescriptive, isn't it, because of the fact that it depends on the project. Right now the BHP hot briquetted iron plant is importing fabricated modules from the Philippines. Can they be made in Australia? Yes. Why aren't they? Possibly for commercial reasons, but what is the basis for those commercial reasons? Are there government incentives in the Philippines for whomever is building them?

In relation to the Wandoo and the top sites, they could have been made in Australia, but the joint venture partner happened to be Keppel. Who is Keppel? Keppel is one of a group of Singapore shipyards that has a very strong government involvement. In relation to the Griffin Venture FPSO, that work could have been done in Singapore. BHP Petroleum took a decision to do that in Fremantle and were happy with the schedule and happy with the work.

On the safety question, if you look at the Singapore shipyards, whatever they say, there are regular fatalities there. Do we want that here? No. Are the standards that are being applied the same? I doubt it.

Mrs JOHNSTON—Can I take you back to your earlier comment that you feel a lot of the work has been going overseas. I understand you said that labour cost itself was not one of the major reasons. The fact that you can buy product at world competitive prices may have an impact. What do you see as the major impediment? We have talked a lot here about local content. We have talked about safety regulations. You have suggested that the influence of an owner in a particular project may have something to do with it. What do you see is the major impediment? As somebody who works in the industry and who has also worked overseas you may have an answer that is more hard-biting that we can provide.

Mr Harris—The primary reason is absolute cost and, putting all those factors together, what the developers can get their product for overseas. One of the areas, I believe, on why they are reluctant to have any form of prescriptive local content policy is because they see it as cutting out their ability to compete in

the international market.

One of the regular arguments that you will hear is, 'This development will not proceed unless we can bid this internationally.' In Malaysia they have put a stop to a large proportion of that. In Indonesia they have stopped a large proportion of that, and, guess what? Everything is still being developed, with more going to the local companies.

Mrs JOHNSTON—Firstly, would you like to see more government intervention if a situation like that arose? Secondly, do you feel that the implementation of the Hilmer report will have an adverse or effective influence on what we are talking about? How do you see it?

Mr Harris—Sorry, can you repeat the first question.

Mrs JOHNSTON—Do you think there should be more government intervention in your industry?

Mr Harris—I believe that there should be intervention through policy and encouragement rather than legislation.

Mrs JOHNSTON—Should that be only at specific intervals when a project is being developed and the companies that bid for it then say, 'Look, this doesn't really suit. We can't meet those regulations. We can't compete, so therefore there should be intervention.' Can you explain it a little more if you do it by way of policies as opposed to legislation.

Mr Harris—I believe that if it is on a case by case basis, then the development companies will argue that there is uncertainty, and there is uncertainty in a number of other areas that we are all aware of right now. That will just be another uncertainty. For that reason, it should be a coordinated overall policy. There may be exceptions to that with particular developments, but that is my view.

On the Hilmer report, I am really not familiar with all the recommendations of that. If it is talking about outsourcing and contracting out of government services, I see that as being a very positive thing. One of the contracts my company has is for the Perth south region for all the maintenance of water supplies from South Perth to Mandurah, servicing about half a million people.

I believe that what we have implemented there—the skills of the work force, most of whom were retained—is excellent. The sort of work they do most people would not choose to do as a career, but we have taken over 100 people there. They have excellent skills. We believe we have improved their working conditions and motivation and reduced the costs considerably with it being run by a private enterprise.

Mrs JOHNSTON—Finally, you talked a lot also about the playing field not being level, and we have heard a lot about that recently. Would your suggestion be that minimum local content would perhaps be a better leveller of the playing field?

Mr Harris—Certainly. Can I just add one more comment there. It relates to experience I had in Singapore and it addresses local content and Australian industry. I was a member of the Australian-Singapore

Businessmen's Association. We had regular functions there for trade delegations from Australia. We used to confuse the Asians no end because we had a trade delegation from Western Australia, from South Australia, from Queensland, from Far North Queensland and from Australia. One of the things that we could do better is coordinate what we are doing in terms of Australia rather than individual pockets of Australia.

Mrs JOHNSTON—Would you then suggest that federal legislation should override all state legislation in terms of trade?

Mr Harris—No.

Mrs JOHNSTON—Would you mind clarifying that? I think our state people over there would have a fit.

Mr ALLAN MORRIS—One could argue, though, that companies who wanted access to R&D tax write-offs, for example, would save a lot of money on R&D. If they wanted to access national tax incentives to encourage their business, they should, in fact, be conforming to some national standards. That would be a way of overcoming this question about states and the Commonwealth and all the rest of it.

In relation to the point you make about the six states overseas, it is much worse than what you suggest. It is in education. It is in almost every field and it is played on the ground here as well. Every single day there is a company going around bidding around the states saying, 'You give us some money and we'll come here.' They talk to the states and it is like a round robin going on all the time. It is not just happening in Singapore; it is here all the time. It is not just overseas companies; it is also Australian companies.

Mr Harris—An observation I made while I was there is that some of our Asian neighbours got very confused as to who these Australians were.

Ms GAMBARO—Mr Harris, I have to agree with you on your last comment. It happens in tourism as well. We do the same thing. Queensland delegations go overseas and it gets very confusing for the Asian countries. Most of the questions have been asked, but I would like to ask you a few questions concerning your work overseas.

In your submission you mention minimal government impact, such as payroll tax and superannuation. Can you outline for the committee what sort of advantages Asian countries have in those particular areas? Can we do a little bit more, particularly in the payroll tax area? Do you feel that we are at a considerable disadvantage with our tax system?

Mr Harris—I think the tax system is certainly a disadvantage. I could not comment on the detail of the cost break-up or make-up of overseas countries, but there are certainly a lot of add-ons to the wage costs in Australia that you do not get there. I also appreciate the percentage, not precisely, of what payroll tax contributes to state government revenue and the difficulty in removing that or substituting it with something else. The point I am making is that all of those payroll on-costs impact on the overall cost of production in Australia.

Ms GAMBARO—So our inputs are much higher than those of overseas countries. As to the modularised drilling rig, you mentioned that 350 people were employed; how long did that project go for?

Mr Harris—Drilling rig?

Ms GAMBARO—Goodwyn.

Mr Harris—I think I said we had 350 people in the workshop in total. I could not tell you the precise numbers on that. The number I quoted was in fact about 600 people on the Griffin venture, upgraded Fremantle. That was a matter of months rather than years. We have an ongoing work force that fluctuates between 250 and 600 on our fabrication works, and for construction works it fluctuates between, say, 600 and 1,000.

Ms GAMBARO—In the tender process for the drilling rig, were you bidding against many companies? What was the whole tender process?

Mr Harris—I am not sure whether that was bid internationally. I could not tell you.

Ms GAMBARO—We hear a lot about industry policy and what the federal government needs to do. I know you have covered some aspects of it, but are there any other things that we should look at in that regard? R&D was mentioned by Mr Morris. Are there any areas that you feel we need to have a bit more foresight in?

Mr Harris—Nothing that I can immediately think of. Some of those issues are covered in the Heavy Engineering Manufacturers Association submission to the inquiry.

Mrs BAILEY—I want to follow up on another issue that Ms Gambaro raised with you about tax. The potential and the opportunities in the resource industries, especially over here, are absolutely enormous. You identified in your opening statement two different areas—labour costs and costs of government imposts. You are wanting government intervention, whether it be in policy, incentives or penalties. Obviously that needs to be further developed and more flesh needs to be put on the bones of that.

In your whole submission you have not talked about the role of taxation at its various levels and how it affects the competitiveness of your industry. Is this something that business tends to shy away from, or is it something you do not think has as great an impact as, for example, labour costs and other overhead cost areas within your industry?

Mr Harris—It is something that we have not done a definitive study on. Obviously it has an impact. I guess the overall thrust of what I am saying is that the overall, flow-on, benefits to Australia—again, the CCI submission addresses some of these things—of doing these things here perhaps justifies some assistance.

Mrs BAILEY—It just seems to me—I suppose this is a comment as well as a question—that industry is often asking the federal government to intervene in certain areas. If the federal government were to be pressured by industry to look at reforming areas that it now has control of, that in fact might be the incentive

industry needs.

Mr Harris—That is correct.

Mrs BAILEY—I am very surprised that you are not talking about that.

Mr Harris—You may be right, yes.

Mrs BAILEY—Is this something industry could look at further and even come back to this inquiry with?

Mr Harris—It is. I believe, though, that it is something that would be more appropriately done by an industry organisation than a specific industry.

Mr ALLAN MORRIS—Mr Harris, we have run out of time. On that tax question, you will find that companies are actually picking the eyes out of different countries—they will pick our R&D regime and somebody else's this and somebody else's that. Why does Woodside have a chief interest in the West Indies? Why on earth would you want a ship to be owned over there? After this is over, you will get a copy of the *Hansard*. When you are looking through it, would you think a bit more about that question I was trying to put to you about methodology?

Mr Harris—I will.

Mr ALLAN MORRIS—You said that there should be no legislation but there should be government policy. If government policies are prescriptive in saying to companies, 'You will have X amount,' companies are all going to say, 'That is just making us incompetent.' They have agreed to incompetence with Australian companies because they are not forced to compete. So what I am really asking you is whether you can think of any ways that can be commercially viable. If so, drop us a note.

Mr Harris—I will do that.

Mr ALLAN MORRIS—If not, fine. You are a busy bloke, so do not feel compelled to do that. We are looking for some advice or suggestions or ideas. In many ways, people like you are often better placed to advise us than the government departments may be, but have a think about the question I was asking. With defence, the government can make it happen because it paid the money. With these kinds of sectors, it is much more delicate and much more difficult.

Mr Harris—I am not aware of whether we have done the commercial analysis on, say, the frigates or the submarines, as to what it would have cost to import them in one piece.

Mr ALLAN MORRIS—It costs more but you save on life maintenance, because both the designers and the manufacturers were here, so there are 20, 30 or 40 years. Take the example of converting the F111 avionics. It has just given 20 more years to the life of the plane. When we bought it we could not even look at the electronics on it, because it was in a black box and we were not allowed to. That is the kind of shift.

So we have now retrofitted the avionics from analog to digital for the F111s. It is virtually a whole new aeroplane. When it was bought off the shelf, we could not even touch it.

So your benefit is that the Woodsides and the Wandoos of investment end up with a strong, healthy design and construction industry of world standard, which they can then take into other parts of the world behind them for their projects. The way I can put it effectively is that what they all do is one-night stands.

Mr Harris—Yes.

Mr ALLAN MORRIS—If they all sold their product on the spot market, they would all go broke. They all rely on long-term contracts at relatively high prices compared with the spot market. Yet when they go to buy something they buy on the spot market.

Mr Harris—It is hypocrisy, isn't it?

Mr ALLAN MORRIS—It is a bit inconsistent and you start to wonder. The arguments they use on their products about long-term pricing and long-term relationships they do not use with their suppliers.

CHAIR—I have two final questions. I am interested in some short answers on how it affects your own company. Do you think the workplace relations act, which came into force on 1 January, is a positive impact for your industry? We have had some submissions which suggest that the IR issues are interesting, if that is the right description, within the industry. Do you think it is going to be a positive effect?

Mr Harris—I am not qualified to comment on that, I am afraid.

CHAIR—Okay. The other government legislation is the Native Title Act. You suggested something about uncertainty in your discussions. Is the Native Title Act having an impact upon the industry?

Mr Harris—I believe it is definitely. If you look at the exploration figures of the Australian-international companies like BHP and CRA and see that their spending on exploration overseas is increasing and their spending on exploration in Australia is decreasing, I think it is going to have a very big impact.

In the last week I personally have been involved in talking to people from two specific companies. The first one is Century Zinc in Queensland, and we are pursuing work there, and the second one is Anaconda, with the Murrin Murrin nickel deposit. They are the two immediate ones. In the last week we have had dealings with both those companies. In both those instances there are elements of uncertainty. If projects of that magnitude either do not go ahead or are deferred for a number of years, it is going to have a direct impact on my industry.

CHAIR—What is the lead time between exploration and maybe capital development in a project generally?

Mr Harris—In a small project it could be as small as two or three years; in significant projects it could be eight years.

CHAIR—So the real impact on what you are talking about is probably about five years away now?

Mr Harris—I think we are still to see the worst of it, yes, but it is significant. More and more on a daily basis we are running into situations where work that we are pursuing is not necessarily under threat but is subject to delays.

CHAIR—Mr Harris, thank you for your time today. It is the second time your company has appeared before the committee. We appreciate your time. Thank you.

[10.31 a.m.]

BIRMAN, Mr Jon, Deputy Director Operations, Group Manager Manufacturing Engineering and Resources, Chamber of Commerce and Industry of Western Australia, 190 Hay Street, East Perth, Western Australia 6004

SASHEGYI, Mr William Stephen, Director, Industrial Supplies Office of Western Australia; Manager, Industry and Energy Development, Chamber of Commerce and Industry of Western Australia, 190 Hay Street, East Perth, Western Australia 6004

CHAIR—I have some procedural matters first. Committee proceedings are recognised as proceedings of the parliament and warrant the same respect that proceedings of the House of Representatives demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. You will not be asked to take an oath or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private, you may ask to do so and the committee will give consideration to your request.

Thank you for coming today. We are in receipt of your submission, and we have authorised it for publication. Would you like to make any additions or alterations to your submission before making an opening statement?

Mr Birman—No. Thank you.

CHAIR—Would you like to proceed with an opening statement?

Mr Birman—Thank you, Mr Chairman. I would like to thank the committee for the opportunity to talk to you this morning. This is a subject that is of great interest to the CCI and its membership. The procedure I would like to adopt is to give you a brief overview of CCI itself and address eight points out of our submission. I will give you our very simple conclusion in relation to our submission and then Bill will give the committee an equally brief overview of Jervoise Bay for those of you who are not aware of where it is. Then we will be pleased to answer questions.

CCI is Western Australia's major employer organisation. It has just under 6,000 members across the entire scope of the industry. This morning we are representing members of specific interests in this area.

They are manufacturers, constructors, project engineers and client developers—all of whom have had an opportunity to comment on the submission which has been made to this inquiry.

On a service basis, the CCI is intimately involved in the resource industry and supporting our manufacturing construction members. We directly employ 350 engineering apprentices, who are employed at the CCI in the same form as Bill and myself. We have another 200 under management who are moving into direct CCI employment. We have been intimately involved in skills enhancement projects in the engineering sector for the last two years and, through our ISO relationship, are looking at the capacity of local industry to service demand.

We believe we are also the principal supplier of information to manufacturers and constructors on a broad basis of what is going on inside the resource industry in Western Australia to allow our members to try to take advantage of business opportunities that are arising.

The focus of our submission to this committee is maximising local content by the provision of infrastructure, skills and information. Our simple view is that without infrastructure support it would not be a question of how we increase our local content; it would be a challenge to retain the existing levels of local content for our members and Australian industry. The paper that we have provided to you builds on the 1995 paper but, as you would be aware, it concentrates primarily on the question of infrastructure on the western coast of Australia.

The technology in construction has been developing rapidly and continues to change, and that really should not be surprising to anybody. Offshore oilfields, where they are becoming marginal, are relying on smarter alternatives such as floating production storage and off-loading facilities. The land based projects, which have been traditionally core activity for Australian constructors, are now looking at modularisation. As you referred to a bit earlier, there have been examples of modularisation already.

That introduces national competition into an area that has traditionally been a very strong area for Australian constructors. That means we are getting bids from anywhere in the world to do work that we have previously had mortgages on. We believe a key component to competing in that market is a marine based engineering and fabrication facility. With the change in technology, where design and engineering procurement are being done offshore, the chance of manufacturing offshore is greater and vice versa; that is, if we can attract the complete package to Australia, it enhances the capacity of our manufacturing companies.

Modern construction costings are increasingly being focused on full life cycle, that is, both construction and operation, and there is a clear need for synergies at all levels for development of resource projects. We believe that in order to compete in a level playing field—a decision to base a major project engineering procurement construction management in Australia—we need to offer world class facilities to compete in that market. That means the world class marine engineering and fabrication facility.

The point that we would really like to emphasise to this committee by way of our submission is that infrastructure is not project driven. It does not rely on a single project. Infrastructure is an investment in the industry. It is not what we are going to gain; it is what we are going to lose. What we would like to see is a commitment from the state and federal governments for a sum of up to \$150 million to develop Jervoise Bay

over the next five years. Prior to answering questions I would like Bill to just explain to the committee where Jervoise Bay is and what we are looking for.

Mr Sashegyi—The actual elements of infrastructure at Jervoise Bay are outlined on page 12 of our submission, so I was not going to go into those in detail. What I really wanted to do was to try to convey to you the strategic issues regarding Jervoise Bay. I think the important thing to see is that we are looking at an integrated facility, a marine based engineering and fabrication facility, just south of Perth—between Perth's broader metropolitan area and the Kwinana industrial area where a lot of the heavy engineering already is. We are looking at a facility which integrates the current shipbuilding industry with the other broader manufacturing industries in Western Australia.

The key issue is that infrastructure development will enable the development of synergies between industries. The sorts of industries that would develop just to the east of the major common user fabrication and lay down areas are extremely important. The linkages between those industries are very important in the whole picture as well, as are links to the existing marine industry precinct, and as I was saying before, down to Kwinana in the south. There is also a good likelihood that a major general industrial area will open up just to the north-east of Kwinana, immediately east of the Jervoise Bay facility. So you will have an ability to concentrate those linkages between industries at that marine based engineering and fabrication facility.

CHAIR—You mentioned marine based engineering. Could you give me an overview about the growth of this particular industry and perhaps its current status worldwide and where Australia's position might be in all that?

Mr Birman—In terms of construction and resource development?

CHAIR—Yes.

Mr Birman—Not really. I cannot comment on our status worldwide, but I can confidently say to you that Australian resource constructors are, if not the best in the world, certainly among the best in the world. Our track record in resource development in Western Australia, by and large, has been very, very good. The amount of investment that is going to go into resource development in this state has been subject to a lot of political speculation over the last few years, but it would certainly seem that we are ratcheting up a level in terms of the dollars that are going to be around. If some of the major projects like the Gorgon or Woodside big expansions go ahead, there will be significant opportunity for Australian manufacturing construction companies to participate, we hope.

Mr Sashegyi—One of the things I thought you were leading to in that question was that, if you look at the sort of way construction and fabrication is occurring now worldwide, the bigger packages, the more complex packages, are being done at a single site—the modularisation issues. What we are arguing is that a facility such as Jervoise Bay and the result of synergies which will develop around industries that use it would develop the capability and the capacity to compete in that new market.

We are saying that floating production storage and off loading facilities and this sort of modularisation development offshore is very important. It is very important that Western Australian industry has an

opportunity to compete in that market. But we are also saying that those same modularisation techniques that have been used for many years offshore are now being used more and more onshore and we need facilities near at hand to ensure that Western Australian industry is able to compete in that changing environment.

CHAIR—Competing locally or competing locally and overseas?

Mr Sashegyi—Certainly, initially we are competing locally because that is where we could lose work. We see the problem that we are currently taking for granted work that we should be able to do here. Our submission talks about the fact that modularisation enables work that previously would have been sure to have been done here, even such things as fabrication type work, to now be done as part of a module and done overseas. But yes, there would also be the opportunity for involvement in the export market.

CHAIR—You mentioned that CCI employs 350 apprentices, as you said, and another 200 under management from the CCI. Is that up or down from previous years? Do you see a growth in that training area?

Mr Birman—What happened is that five years ago—Jim Harris referred to it—there was a drop in the market in terms of available work in the engineering sector. It was a fairly significant drop to the stage where for some of the middle level companies it was as much about survival as to how many people they employed. The traditional thing to do is to cut costs. The last cost most people cut is the cost of apprenticeships. That is after they have stripped labour back and all the rest of it.

There was a significant drop both in the intake of engineering apprentices and also those people who were in employment. There were a lot of apprentices just being suspended. You can criticise that if you like but when it comes down to it it is a question of survival. The chamber sponsored at that stage its group scheme called MIGTA, Metal Industry Group Training Association, and picked up a number of existing apprentices who had been suspended and then went out to its membership to promote the employment of new apprentices.

The two things that the chamber did that value added to industry was we took the risk of the four-year indenture by moving apprentices around and we introduced apprentices to smaller shops who were never prepared to take the risk. That scheme has been supported very strongly by our membership and has led to a significant growth in our activities. The most recent activity, although it is not officially opened yet, is that the chamber has just expended under \$4 million building a world class engineering training facility in Kwinana. So we went into it to protect people in employment and it is growing.

Probably the most pleasing aspect about the support of our members for this is that we are able to show now that the number of apprentices being taken into fabrication and engineering in Western Australia is greater than at any time and is growing, whereas the total picture is static across the state. There has always been about 6,000 lumped into metal trades, which includes automotive. If you actually break that down you will see that the automotive sector has dropped off in its training, whereas the engineering sector has increased significantly the numbers it has traditionally had. I think that is a major compliment to employers in this state.

CHAIR—Is the scheme that you currently have and which you started five years ago, or thereabouts, unique to Australia?

Mr Birman—Group training schemes exist all over Australia. What is unique about this is that it does not rely on recurrent funding for its activities. It is, for all intents and purposes, a business whose core activity is training apprentices to a top quality level.

CHAIR—You mentioned before the importance of skilled labour. Does the chamber anticipate a shortage of skilled labour in future years?

Mr Birman—Again, from what Mr Harris said, unquestionably in our view there will be a shortage of skilled labour in this state in the third quarter of this year as some of the major projects gear up on site. We have been attempting to address that for a couple of years by our skills shortage project which is referred to in there. We have been lobbying the state government on what it can do to support that. We believe the traditional approach to addressing skills shortage is not the way to go.

CHAIR—What is the traditional approach?

Mr Birman—When you have labour market schemes that either deal with pre-vocational training or long-term unemployed. I am not saying that they are wrong to do that, but they are not the way to address an immediate need for skills shortages. You must be far more innovative and take a strategy that covers a number of issues.

Mr ALLAN MORRIS—Except that up training has been a very successful way on the east coast.

Mr Birman—Up training is exactly what we have been doing for the last 18 months with the existing work force and backfilling them with new entries.

Mr ALLAN MORRIS—Although we have had, historically, a number of unemployed metalworkers who need a qualification to do pressure welding and offshore welding, and so on, who were unemployed.

Mr Birman—Yes, but they come with a basic skill. What you are not starting with is somebody who is totally unskilled and totally—

Mr ALLAN MORRIS—Sure, but labour market programs can do that, though.

Mr Birman—I do not consider that a labour market program. I consider that a program that brings somebody with skills into employment—they start with a base.

CHAIR—Are you needing then to import labour from other states and from overseas?

Mr Birman—I am pleased to answer the questions in this area, but I do not want the committee to lose sight of the core submission from the chamber which is about Jervoise Bay. That is very important to us. If you want to know, the strategy that we have adopted over 18 months is to work with our member

companies to increase the skills of the existing work force and backfill, so that we have a tiered effect.

The second strategy that we have proposed is to go on an Australia-wide advertising campaign and provide a database out of Western Australia for engineering companies in this state to draw on. The third strategy that we want to implement at the same time is a temporary visa policy for skilled labour to bring people into this country. The fourth strategy is the one about increasing the number of apprentices coming through in vocational training. We see them acting in tandem; we do not see one to the other.

The importance about the immigration aspect or temporary visa is that we know from our own capacity surveys that we could be faced with the position of unutilised capacity simply because we do not have the people to run the machines and that makes this sort of exercise a bit nonsensical really.

CHAIR—You mentioned that, without the support of the CCI in providing the skilled labour and research and information, there would be a reduced capacity within the industry. Why would that be the case?

Mr Birman—The point I was trying make is that it has been run efficiently and we have added to the capacity. Is this the number of apprentices?

CHAIR—No; you mentioned also your information technology and information that you are able to get out to the industry. You are able to put out research to them as well. You say that you are playing a very important role to the industry in that line and that, without that support, they would have a reduced—

Mr Birman—You cannot say that one criterion is going to everything. One of the issues about local content is getting information to companies at an early enough stage so that they can actually go and market their capacity to people who are going to development projects. That is a service that we provide and we believe that is important just to get our members into the marketplace. Obviously, we would like to be there the day the decision is made or work with people who are even tendering for projects to get information so that our member companies in Australia can advertise their capacity to the larger multinationals that might be chasing project management.

Mrs BAILEY—Mr Birman, in regard to this whole question of floating production technology, we actually flew over the Cossack Pioneer yesterday, so at least we have some idea of exactly what it is that you are talking about. For example, you mentioned in your submission that you estimate that there will be 129 of these floating production units constructed worldwide over the next 10 years, approximately 10 of which may be located in Australia. Given that you have put a considerable amount of effort into this Jervoise Bay project, what is to stop this whole project being located somewhere in Asia? Given that you could convince the state and federal government to put \$150 million into helping establish a project like this, how confident are you that it could actually compete efficiently in the international market? Our previous witness has identified labour costs and costs from government imposts. All of these sorts of problems are still in the system. I think we need a little bit more convincing about the project.

Mr Birman—Our submission is not saying to either the committee or the state government that, if you build Jervoise Bay, 10 offshore projects will be built at Jervoise Bay. It is not saying that we will recover modularised work that might have been done on DIR. What it is saying is that if we do not have a

world class facility to enable our members in Australian industry to compete in the market, there is every chance that we could export more of our local content.

Mrs BAILEY—I accept that, but do you not think that perhaps you are putting the cart before the horse, that you should be spending more time convincing government at both the state and the federal level to make some changes in the areas that are making industry uncompetitive?

Mr Birman—I am sorry; I misunderstood your question. If you are looking at other areas that can be addressed to create the level playing field, yes there are other things that you can do. Perhaps I will run through a few. Firstly, you can have a proper debate about a GST and introduce that. Secondly, I am a bit more aggressive on the question of payroll tax. Payroll tax is an absolutely aggressive tax against people who employ labour and, while state governments rely on it significantly for an income flow, it needs to be taken out and the state government, if necessary, compensated for that loss.

Cabotage can be addressed, energy prices can be addressed, fuel taxes can be addressed, serious industrial deregulation can take place and we can do much better on the question of skills accessibility. The first thing that we can address there is user choice in training. So there is a whole suite of issues. If you then question whether that extends to whether we should do that before we make a commitment to Jervoise Bay, my answer to that is that it is chicken and egg. We believe that Jervoise Bay is something that can be done now. In fact, the federal government had previously had a policy of supporting Jervoise Bay. We know the state government's position is one of support of Jervoise Bay. It is really a question of putting the money up.

Mr Sashegyi—I think the other thing that needs to be recognised, too, is that there is a relatively small window of opportunity and that, if you actually look at what is happening in Asia and Indonesia—

Mr ALLAN MORRIS—That may have passed.

Mr Sashegyi—Well, in terms of the development of integrated facilities and the greater sophistication that is occurring and the greater breadth of expertise that our neighbours to the north of us are gaining, you asked whether there are going to be other facilities like this in South-East Asia. Unquestionably there will be. The issue is that, if Western Australia and, therefore, Australians do not have access to that sort of facility on the west coast of Australia, then we are not going to be able to compete in the same market.

Mrs BAILEY—I agree with that. But my concern—and the reason for my question—is that, unless we fix those inherent problems, a facility like the one that you are proposing might not succeed simply because the work that is carried would be uncompetitive in an international market.

Mr Sashegyi—We have seen quite a rapid change in technologies used in the construction and fabrication industries. We talk about potential losses of local content of hundreds of millions of dollars. This is below what we would have otherwise expected to see happening without Jervoise Bay. There is not that same rapid change in those other conditions. There is a new element to the equation of Australian industry competitiveness, which is the need for an integrated facility, such as at Jervoise Bay. The modularisation issue is the one that is really giving the inside running to those sorts of facilities.

Mr ALLAN MORRIS—Your concern about floating platforms is well based, but it would seem to me that unless you are also incorporating a capacity to build the platforms, the big ships, the window may have closed, given that they were using old tankers and now they are into having new ships built. That does not seem to be covered in your submission. So those 129, 80 per cent of them, are actually new builds, if that is correct.

Mr Sashegyi—Our understanding is that the current technologies provide an opportunity because some of the new technologies do not go down the path of the conversion of the old tanker. If you go down the path of converting an old tanker, then to a greater extent you require the facilities of a shipbuilding type facility. In fact, with the changes that are occurring with the new builds, our understanding is that a number of these are now being towed large distances, so the hull is built and then towed large distances to a site to be fitted out. So the change that you talk about in fact creates an opportunity for Jervis Bay and certainly is not a threat.

Mr ALLAN MORRIS—I find that a bit hard to believe. I do not ever see the Japanese or the Koreans allowing themselves to build the hulls. You have put the guts in it. Their pricing and campaign strategies would be just the opposite. Your submission does not canvass that problem about new builds. Jervis Bay looks excellent as a concept. I am concerned now that it may be five years too late, that you may have needed a new build capacity four or five years ago. You perhaps need to be talking about that even now. I am concerned about where the market is going. The shift is so dramatic and so sudden.

Mr Sashegyi—All I can do is reiterate it. As I was making my comment about the new builds and the ability to build the hulls in one location—take it to a new site to be fitted out—I cast my eye at Niegel Grazier from APPEA, who is sitting over there in the corner, and he nodded.

Mr ALLAN MORRIS—So you are saying that you build the hull in Korea, tow it down to Fremantle and then tow it back up to Laminaria?

Mr Sashegyi—It certainly is much more possible to do that now than it used to be.

Mr ALLAN MORRIS—It might be possible, but look at the resistance of the industry to actually using even the existing capacities. Do you remember the arguments about how you could not tow across the Bight and how you could not tow up past Queensland—you could not do this and that? Can you remember all those arguments from industry about why they should build in Batam Island and places like that?

Mr Sashegyi—We have actually alluded to that in our paper, that those sorts of arguments strengthen the case for Jervis Bay with regard to towage.

Mr Birman—It is probably fairly easy to run an argument against the development of the infrastructure. This is the simple answer to the argument: do we want to be serious players in this industry?

Mr ALLAN MORRIS—Do not get me wrong. My belief is that Australia has vastly under-supplied infrastructure. If you go back to previous generations, to the first 50 years of Federation, infrastructure development was enormous, whether it was the Snowy Mountains, the railway lines or power stations or

whatever. In the last 40 or 50 years our infrastructure development has been pathetic. The question now is who pays for the damn stuff rather than what do we need. You go to Singapore, where Keppel is, and they have got their infrastructure. It was not Keppel but a government that built it.

CHAIR—I am interested in your response, if you could complete it.

Mr Birman—The point I am making is that it is possible to argue against why you would not make an investment of this nature now on the basis of the unknown. We are saying to you that we are not guaranteeing any business into Jervoise Bay, in terms of our submission. We are saying that, without Jervoise Bay, the opportunities lost to Australian industry could be more significant. They could lead to an actual reduction in our local content.

The opportunities that will be provided by world-class infrastructure in reality will identify themselves as they arise. What we are able to say with some conviction is that there are a lot of things on the drawing board that will occur in this state which could benefit from this sort of facility. Perhaps Bill and I might disagree as to timing. It will probably never be too late, but it will never be too soon either. We think the commitment should be made now and work should start on it.

CHAIR—If the Western Australian government is happy, the federal government is happy and you are happy, why isn't it happening?

Mr Sashegyi—I think the key question there is the quantum of dollars that is involved.

CHAIR—You said \$150 million. Is that right?

Mr Sashegyi—Yes. I think the state government initially entered into the process of investigating Jervoise Bay on the basis that they were basically expecting dollar for dollar support from the Commonwealth government. Now they are looking at a rather large sum of money. We are certainly pushing them to make that commitment for the entire amount. But agreement by the Commonwealth government to contribute would go a long way towards ensuring that it happens.

CHAIR—There has been no agreement previously?

Mr Sashegyi—I am just referring to the sorts of discussions that occurred early on when the planning studies were undertaken, which has now resulted in the sort of plans and drawings that I have given you today.

Mr Birman—To add to Bill's answer bluntly, it would be very good if the Commonwealth government committed itself to providing money to this venture. It is as simple as that.

CHAIR—The state government wants one and one and—

Mr Birman—The state government is giving every indication that it is making commitments. The state government's capacity to fund the \$150 million is, I believe, its principal problem. We cannot see why

the federal government would not continue the interest it had since 1993 as to supporting the initiative.

Mr Sashegyi—I just had a note given to me which actually outlines one example of how the new builds' hulls for FPSOs are shipped around. What I would rather do is perhaps send you just a brief outline of some of the case studies of examples where new builds have been transported long distances, fitted out in a different yard and then moved on to location. I think that may help.

CHAIR—We would find that beneficial, if you could do that for us.

Mrs JOHNSTON—You have obviously had negotiations or ongoing discussions with the current federal government in regards to this?

Mr Sashegyi—No, our discussions have been with the state government.

Mrs JOHNSTON—Perhaps it would be timely to start holding some discussions. On page 17 of your submission you refer to the fact that time might be running out if this does not get addressed fairly quickly. Bill, what is your estimate of the time? I understand that Mr Birman does not totally agree with you there.

Mr Sashegyi—The key issue is that if you look into the future, the way that the fabrication and the construction industry is going worldwide says that this sort of facility is required in Western Australia. There are individual projects coming up. We have a wave of development opportunities. That wave of development opportunities can create the short-term opportunities which can help justify the sort of investment in this sort of infrastructure. There are a couple of particular projects which, if they are perhaps done in our northern neighbours, will enable those yards and those countries to lift themselves a notch in terms of their ability to develop a world-class facility and then become very competitive in this area with the engineering and fabrication work that we are talking about.

You heard earlier from Mr Harris about the impact that the North West Shelf project had on his company and other companies in Western Australia. It would be a pity if some of the major developments in Western Australia were to create an impetus for countries and companies to our north rather than our own companies to develop and lift their competitiveness that extra notch.

Mr Birman—I should perhaps qualify my comment. There is a window now which justifies the money. If it is not done now, it is unlikely to reduce the chamber's lobbying effort to get this done in the future. It may well be that the window is not as bright as it is now. But it is not an issue that we will walk away from.

Mrs BAILEY—You have got support from the federal government. You have obviously got it from the state government. If you got support from the federal government, how quickly could this operation get up and running?

Mr Birman—The submission talks about a development over five years. The first thing that has to be put in is the breakwater.

Mr Sashegyi—Earlier on we talked about a first stage development over some 18 months. That was targeted to fit a particular opportunity that had arisen. That particular opportunity may well have passed but there are other ones still to come. You would need to put in a first stage of development in some 18 months. The thing that we are very adamant about is that you need a commitment to the total development because it is that total integrated development which would really assure the competitiveness and provide the confidence for the private sector to invest in facilities in the area as well.

CHAIR—Have all the preliminary studies been made? Have environmental impact statements and all those issues been covered?

Mr Sashegyi—The Department of Commerce and Trade is finalising a development plan for the area right now. That was due to be finished about the end of last year, so it should be available very shortly.

CHAIR—Is it likely to be subjected to any other claim?

Mr Sashegyi—In terms of?

CHAIR—Native title.

Mr Sashegyi—I am not aware that that is an issue in this case.

Mr Birman—Would you like me to comment on native title?

CHAIR—No, I probably can assume what your comment would be. When you say that you are not aware that it is an issue, have the studies been done as to whether or not it is going to be under claim?

Mr Sashegyi—Obviously the situation that I have looked at is from the point of view of the Industrial Supplies Office of Western Australia and our activities. I do not think any of my officers have looked at it from a native title claim point of view, but I am sure the Department of Commerce and Trade would have.

Mrs JOHNSTON—Do you see a limited lifespan to Jervoise Bay once it has been developed in terms of what it is capable of doing? We have talked a lot today about the North West Shelf, et cetera, but obviously there is going to be a limit to what you can do there. What about manufacturing other areas?

Mr Sashegyi—One of the key things that we were saying was that we do not believe that Jervoise Bay is linked to any particular project development in Western Australia. It has continued at a fast pace since the 1960s. The current wave of developments and the lowering of energy prices and more abundant gas that is being developed always gives you confidence that Western Australian major resource developments will continue into the future. As those developments continue into the future, they will require the sort of facility that Jervoise Bay would offer. That is both land based and offshore.

Ms GAMBARO—Mr Birman, you were speaking about employment and training and how we needed to address shortages and look at temporary visa policies. I am doing some work on the migration committee at the moment and we are looking at areas such as this. Is there much exchange between chambers of

commerce around Australia? For example, if you are having a skills shortage here in Western Australia, is there a good information flow there?

Mr Birman—Yes, there is. Our level of expertise in terms of labour demand in this area goes beyond just contact with other associations. We participate in the national training policy organisations and the state training policy organisations. We have an excellent relationship with DEETYA in terms of the research they do. We have in-house projections not only in terms of Western Australia but also the east coast in terms of demand of labour. That basically tells us that if this state has an increased demand of skilled labour, we are not going to get the flow out of the eastern states to fill that need because it will take off in Queensland and there will be improvements in industry in New South Wales and Western Australia.

The sorts of people that we will really be looking for is people to come in and spend time in our manufacturing shops at some point of construction. There will be a fair bit of short-term work while the labour market develops. It is fairly hard to attract people across from the east to do that.

CHAIR—Has the chamber a paper on that sort of information?

Mr Birman—There is currently one with DEETYA. We did a major submission to the WA Department of Training, which it seems to have some difficulty understanding.

CHAIR—So you are forecasting labour trends, is that right?

Mr Birman—Yes, there was a report done in this state last year between the Department of Resource Development and the WA Department of Training called the Worley report, which did some projections against projects. That is a bit out of date now. It is currently being updated.

It identifies major skill shortages. I am not so brave as to say that it will be at that level, but it is certainly going to be there at a significant level beyond the capacity of the market here to meet demand.

Ms GAMBARO—I have recently read some other reports about Western Australia and Queensland being the states that will lead the surge in industry. Do you anticipate that skill shortages will be more pronounced as time goes on?

Mr Birman—As I said earlier, the labour market will tighten in this state in the third quarter of this year. Mr Harris gave you an example of when the HBI plant mans up. A lot of those people will come out of the shops around the metropolitan area to go up there.

Ms GAMBARO—Just to answer my question, if we cannot have access to skilled people locally, what would you like the federal government to do so far as temporary visas go?

Mr Birman—We wrote to the Minister for Immigration and Multicultural Affairs six months ago and proposed that we put together a pilot project that will look at the eastern states' demand and let us put in an overseas project to fast-track temporary visas into our manufacturing shops and construction sites.

What we proposed to do that is different from the past was to source labour, for instance, from the UK, Portugal or somewhere and test the skills of that labour in the country of origin and then match them to employers here. We would have a person on secondment from the immigration department in the CCI who would work for our member companies and do the linkages between the person who wanted to come out and the member.

So all the paperwork would be fast-tracked through one person rather than having 15 or 20 companies go into the immigration department. We can ensure that the skill we are bringing in is the skill that is needed by putting some money into testing that skill in the country of source.

CHAIR—Has there been a response from the minister?

Mr Birman—No money.

Mr ALLAN MORRIS—Where would you do the cement-based platforms?

Mr Sashegyi—At this stage there is a facility down at Bunbury. We would expect those to continue to be built down there. The difficulty is that, when you start to talk about the more integrated types of services that you need for the more sophisticated module construction and fabrication work, then you need a large number of supporting services and industries in close proximity. There is no reason that anything that is being proposed for Jervoise Bay cuts across the work in concrete fabrication at Bunbury.

Mr ALLAN MORRIS—So you do not see yourself relocating the concrete construction capacity, given the potential for either floating or gravity-based concrete structures?

Mr Sashegyi—We are not advocating that, no.

Mr ALLAN MORRIS—You have sought from the Commonwealth government just a cash grant for this? Is that all that is being sought?

Mr Sashegyi—We have not actually taken the matter up with the Commonwealth; we have taken the matter up with the state government and it has done the negotiations and communication with the Commonwealth government. Taking the comment from the committee today, one of the things I have written down to do is send a copy of our submission to the minister immediately, today.

Mr ALLAN MORRIS—An alternative way of approaching it might have been to have specific depreciation regimes or whatever for companies that were functioning within that context. That may have been a different way of approaching it.

Mr Sashegyi—It is an issue for us because we see this facility as being principally open access.

Mr ALLAN MORRIS—Sure, that is right. But I am saying that, if the company goes in there, one of the options you have got is to start looking at different ways. If someone invests in the infrastructure, one of the ways of doing that for those who use it may be to have a different tax regime or a different depreciation

regime for what they are doing when they use it.

Mr Birman—It still potentially discriminates against some of our members.

Mr ALLAN MORRIS—They are all paying taxes. You are asking your companies which pay taxes to put money in and one of their competitors can go in and use it against them. So either way it discriminates.

Mr Sashegyi—If you are depreciating—

Mr ALLAN MORRIS—No, I am saying that, if you are looking at the Commonwealth putting money in and asking it to put in cash, then a lot of your members who are paying taxes and who will never use it are saying, ‘Why in the hell should we subsidise our competition to go in and build against us?’ One of the alternative ways is for those who are using it—

Mr Birman—That is the point I am making. If you provide a concession to people who put in substantial infrastructure in that site, what about—

Mr ALLAN MORRIS—No, I am suggesting that the state government put the infrastructure up and that it, in turn, charges it out. It will charge people who use it.

Mr Birman—You would expect that to occur. You would expect the government to want a revenue stream out of the provision of the facilities at the level of revenue that they are going to take. The point is that that has to be open access.

Mr ALLAN MORRIS—I think you are being a bit simplistic. It is bit like cargo cult stuff. It is a bit dangerous to put forward a request for 30 per cent of \$159 million and spend five years arguing over it when, in the meantime, it is all gone. I think you need a bit more sophisticated approach to it.

Mr Birman—The CCIWA has been accused of many things in a policy sense, but I do not think the CCI has ever been accused of having a cargo cult mentality in terms of its approaches.

Mr ALLAN MORRIS—Can you give an example of where the Commonwealth has put funds into a project like this? Can you? I can’t.

Mr Sashegyi—I think the way we look at it is that this is effectively an investment.

Mr ALLAN MORRIS—I am agreeing with you. I am saying that you will spend five years arguing about why the money should come and, when it does not come, you are going to say, ‘We missed the boat.’

Mr Sashegyi—The question of infrastructure funding around Australia is a major issue for the Commonwealth government.

Mr ALLAN MORRIS—I am agreeing with you. I hear people all over Australia saying, ‘Give us

some money,' and no-one gets it. Afterwards they complain. I am saying that it may mean that you need to completely rethink that approach.

Mr Birman—We consider this to be nationally important infrastructure. In terms of supporting industry, it is no different to supporting an efficient road system, airports or the like—and the government funds them all the time.

Can I just qualify an answer I gave earlier about looking at this proposal to fast-track migration for skilled labour for temporary visas. Not only have we currently got another submission before DEETYA which focuses very specifically on skills shortage funding for the top end of fabrication but we also have a small amount of money in there to prove up the concept about skills testing in country of origin and migration.

DEETYA has been, during the previous government and this one, just fantastically helpful and supportive of everything we have done in skills shortages. The message we are getting out of there, even though it is trying to do something for the industry in this state, is that the skills shortage funding in the budget was cut to an extent that it will have to think of something more innovative to support what we are doing. If that is of interest to your committee, I could address it.

CHAIR—You mentioned a whole suite of issues that you would like to see addressed to help industry. One of them is deregulating the labour market. I would like to get some sort of view from you regarding the workplace relations bill and whether it is beneficial.

Mr Birman—It is beneficial. Our view is that the workplace relations bill does not go far enough. It is tinkering at the edges in terms of industrial relations deregulation. You have to look at Western Australia where the majority of the work force is still covered by state legislation. The Workplace Agreements Act is far more flexible in terms of people being able to move out of the award system.

There is no question about supporting people in employment, but we believe the concessions the federal government made during the negotiating period were unnecessary in this issue. As the pressure builds, deregulation will get revisited, probably not until the life of the next parliament, but there is certainly more work to do in that area.

CHAIR—We have had a number of submissions concerned about the IR issues within Western Australia in the whole area of capital development and major projects. What is CCI's view of that? Is it a serious issue? Will the new act be able to help in some way? I know what you have said is that it does not go far enough, but—

Mr Birman—Part of the new act, when push comes to shove and it gets down to trade practices, obviously redresses something that was out of balance for a number of years. It gives you somewhere to go outside the industrial relations tribunals, which was not really available at that stage. As you would be well aware, it is not actually the use of it; it is the threat of the use of it that resolves some industrial relations issues.

The issues in terms of industrial relations on resource projects do not limit themselves to the behaviour of unions. A project is vibrant. It starts with project management and goes all the way through to behaviour of the unions in the work force. There is a whole set of tiers. So good management is as necessary as responsible trade union officials are in a project.

We have had probably until 18 months ago a tremendous industrial relations record in Western Australia on our resource developments, and it is something that I think everybody can be reasonably proud of. In the last couple of years, as the market has tightened and more work has taken off and expectations have been built, things have not been as good as they could be, and I think all the players in the industry are conscious of that. It is finding solutions that is the issue for everybody.

We referred in our submission to industrial relations in Jervoise Bay. Traditionally Jervoise Bay was treated as a construction site. We are negotiating with the local Trades and Labour Council and the Manufacturing Workers Union a memorandum of agreement with respect to industrial relations to take it out of the construction area into a manufacturing environment. If we are able to succeed in that, that will provide, we believe, some marketable confidence or surety to companies that might otherwise say, 'Well, there is a history there of unreliability.'

CHAIR—You are right when you say that IR issues are, in fact, management issues as well. Is your organisation getting actively involved in increasing management skills in IR relations?

Mr Birman—We do that and we have done that for 20 years—you might say not successfully, given the reason we got back. On resource projects we are involved in, we run training programs down to the line supervision for management to put in place strategies. That work is all done.

CHAIR—And your members are actively participating in the training?

Mr Birman—I will use as an example the previous company which gave evidence, which is at least equally committed to management and skills development and people development as any other contractor in the industry in the country. Apart from anything else, it is good business but it is good marketing too. You can see by the success of some companies that that is part of what they bring to a good project.

CHAIR—Thank you for your submission. We found it most interesting. We appreciate that. I would like to note that the committee has received as an exhibit a copy of the Jervoise Bay infrastructure master plan map, presented by the Chamber of Commerce and Industry of Western Australia. Thank you.

Mr Birman—Thank you.

[11.30 a.m.]

DUMAS, Mr Russell, Infrastructure Manager, Department of Commerce and Trade, 170 St George's Terrace, Perth, Western Australia 6000

SUTTIE, Mr Robert Geoffrey, Director, Policy and Advisory Services, Department of Resources Development, Government of Western Australia, 7th Floor, St George's Terrace, Perth, Western Australia 6000

CHAIR—These are proceedings of the parliament and warrant the same respect that proceedings of the House of Representatives itself demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. You will not be asked to take an oath or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as contempt of parliament. The committee prefers that all evidence be given in public, but should you at any stage wish to give any evidence in private you may ask to do so and the committee will give consideration to your request. We have received your submission and we have authorised it for publication. Do you wish to make any alterations or changes to your submission?

Mr Suttie—Yes, Mr Chairman. You should have received two submissions, in fact, three if you count the covering letter. In the one submitted by the Department of Resources Development, I would like to point out one ambiguity on page 7 in the third paragraph from the end where we say that we support a review of the national capability register. It has been pointed out to me that this may suggest that we are not supportive of the ISO net which is not the case. We are very strong supporters of all the work done by the ISO both in WA and nationally.

Resolved (on motion by Mrs Bailey):

That the committee receives as evidence and authorises publication of the following submission to the inquiry into major projects, that being a submission from the Department of Commerce and Trade, Western Australia, and that the documents attached to the submission be received as an exhibit.

CHAIR—Would you like to make an opening statement before we commence our questioning?

Mr Suttie—Thank you for the opportunity to appear before the committee. You are probably aware this is not the first time the committee has come to Western Australia.

CHAIR—It is the first time that members, other than Mr Morris from Newcastle, have been here investigating this particular issue.

Mr Suttie—My only point in raising that is I would hate to think that our previous efforts in this area were ignored or considered to be out of date.

CHAIR—We want to finalise it. That is the reason why we are here.

Mr Suttie—I hope so. I think that is slightly amusing because it has been going on for quite a long

time, in fact I think 15 years. As an opening statement, I would like to read my introduction to DRD's submission, if that is acceptable to you. I think it puts in context the sort of work that the government of Western Australia has been doing in local content.

The government of the state of Western Australia believes that local industry participation in major resource projects in Western Australia is a key factor in the higher development of the state's manufacturing and fabrication capability and the emergence of new service industries. Development projects provide a major impetus for the acquisition of new technology, the building up of work force skills, the creation of opportunities to apply these skills in what is now a fiercely competitive national and international environment.

As a result, local industries have been able to undertake significant new investment and improve facilities which it is hoped will, in turn, provide many new employment opportunities and, through the multiplier effect, spread significant benefits throughout the state's and the nation's economy. Further benefits are gained by industry through companies having a ready availability of a skilled and competitive manufacturing base to participate in other projects and, importantly, to provide maintenance and service capabilities for the ongoing operation of major projects already under way—some of which we expect to last for 100 years, especially in the mining area.

In addition, further benefits tend to accrue nationally by way of substantial import replacement, application of reverse engineering practice and the creation of future opportunities to export products made by using the expertise acquired in these projects. Successive Western Australian governments since at least 1964, to my knowledge, have supported the use of a local content policy which is aimed at encouraging the participation of local industry in all major new resource projects. The government openly expresses a preference, through its new policy, that developers should try to source their needs locally.

The government's policy has generally been well accepted as part of the process of undertaking major resource projects in Western Australia, but no special favours are sought or given and recognition has usually been on the basis that local industry must be competitive as to price quality and delivery. I should perhaps also comment that with the launch of our local content policy last year we have raised our sights slightly. We are now talking in terms of Australian industry participation rather than Western Australian industry participation.

Mr ALLAN MORRIS—That is nice to hear.

Mr Suttie—I am not sure if it goes as far as New Zealand through the CER but at this stage it is certainly AIP rather than Western Australian industry we are talking about.

Mr Dumas—Initially I would like to say that the department supports the thrust of the Chamber of Commerce and Industry's submission, which deals in detail a lot of the issues facing industry. They are real issues and the government is doing its best to address those.

Secondly, I would like to say that we have included in our submission a map of the Jervoise Bay development. At this stage it is still in draft form. The layout is being finalised, but the point I want to make is that our layout plan is the latest plan. It may differ a little bit from the chamber's plan, which is an earlier version. I think the inquiry needs to be aware that where plans are published relating to Jervis Bay our plan is

the one that should be published because it is the latest version.

I would like to go on to—and the submission deals in some detail about this—talk about Jervis Bay which our department, together with the Department of Resource Development, has been pushing very strongly from a state government's point of view. We have been working very closely with the chamber and ISO in relation to this development. I would like to point out that what we are talking about here—and I have enclosed a large-scale map so you can clearly see what is involved—is an integrated industrial complex. The ability for Australian industry to be internationally competitive is the key element we are talking about.

In our discussions with industry—Western Australian industry, Australian industry and international companies that are coming to talk to us, particularly involving the oil and gas industry—one issue that is of particular importance to them is to be able to locate in an area where they can be internationally competitive, where they can fabricate items and ship them out directly rather than having to break them down and road transport them, for example, where they can be located directly adjacent to a large lay down area to load out facilities to heavy duty wharf and so forth.

We have incorporated in our Jervoise Bay development the ability for, firstly, industries to locate together within the industrial estate. We are talking here about all the support industries associated with the resource sector, together with the large fabricators, together with the high technology area which is part of the complex, and a major skills training centre. So it is an integrated industrial complex.

Part of the problem of achieving international competitiveness is to have the ability of all the support industries to co-exist together. That has worked very well in the case of the aluminium shipbuilding industry which has become a world leader in Western Australia where all the support industries are located in the Henderson area immediately behind the waterfront. That is the area immediately to the north of the Jervoise Bay development area we are talking about.

The second element is to enable them to have direct access to a large lay down area and to infrastructure facilities which are internationally competitive, so they can fabricate, they can load out, they can bring in large items of equipment. The third element in the Jervoise Bay plan is flexibility. We recognise there will be changes in technology over time, and in order to accommodate these changes in technology—and we do not know what they will be—we have to design the facility to have the flexibility to accommodate those changes, so it has relevance in the long term.

We think we have achieved all those aims in regard to this facility. It is of national importance. We stress that, if Australia is going to have any future in heavy manufacturing and heavy engineering, it must invest in facilities such as Jervoise Bay. We believe Jervoise Bay should be right at the top of the Australian government's priority list on economic infrastructure. We are disappointed in the response we have had from the federal government to date to our discussions, our minister's discussions and our premier's discussions with the Prime Minister and the federal ministers. We put a submission to the federal government some 18 months ago and are still waiting for a substantive response.

We have pointed out to the federal government that it will be receiving \$2.5 billion in resource rent tax revenue from all oil and gas projects off the Western Australian coast in Commonwealth waters over the

next 10 years. We consider it the responsibility of the Australian government, in view of that flow of revenue, of which the state receives nothing, to return some of that money via investment in these infrastructure projects, which at the end of the day will foster the development of the oil and gas industry.

The only other point I would like to make on the submission relates to the local content policy, which this state government has recently developed and which Mr Suttie will explain in more detail in the course of questions. We think it is very important that the Commonwealth government take on board the initiative of the state government and recognise that it has a role in developing a policy to complement the policy of the state government. The state government quite obviously has a limited amount of influence in regard to the total Australian context. Without a complementary Commonwealth policy, the Western Australian policy obviously is not going to be as effective as it should be. So we would urge the Commonwealth to develop a local content policy.

CHAIR—You said your last response was given 18 months ago; was that from this government or the previous government?

Mr Dumas—That is this government. Initially we wrote just before the federal election to the then Prime Minister, Paul Keating. We did not receive a response, because of the election. We also wrote to the Leader of the Opposition at that time, Mr Howard, who indicated that he would look at the proposal once he got into government. Since that time we have sent a formal submission to the current government. The premier has recently met with the Prime Minister about this particular project. As I said before, we are still waiting for the federal government to give us a substantive response.

From our discussions with the federal government, we have been unable to see a clear signal from it that (a) they recognise the importance of this project and (b) they have the commitment in place to provide some funding. We are seeking from the federal government funding in the order of a third towards the project. The project is estimated to cost \$160 million over a period of three to five years.

We are seeking from the federal government a funding contribution which is in line with the funding contribution the federal government previously provided to the infrastructure down at Jervis Bay for the aluminium chip building industry. The federal government contributed towards a breakwater construction down there for the aluminium chip building industry, and we are seeking to continue that sort of joint funding relationship. We feel—particularly because Jervis Bay is of national significance and particularly because of the fact that state government receives no resource rent tax royalty payments directly from the federal government—that the federal government should agree to assist in funding this development.

CHAIR—What percentage of funding was for Henderson previously?

Mr Dumas—Around about a third.

CHAIR—Which amounted to what?

Mr Dumas—In dollar terms—I am just guessing; I cannot recall the exact figure—the breakwater that was built there was about \$8 million or so. So I suppose we are talking in the order of \$3 million or \$4 million. Quite obviously I am just surmising, but they are in that order of magnitude.

CHAIR—In summary: you approached the previous government and the previous opposition and you have approached the current government, have you approached the current opposition, because the Leader of the Opposition is in fact the local member down there?

Mr Dumas—We had approached Mr Beazley previously when he was in government. So, yes, we have canvassed both the opposition when they were in power and the current government.

CHAIR—You say you did not have much joy from the previous government and you are not having much joy from the current government.

Mr Dumas—That is right.

CHAIR—Have you had much response from the current opposition and Mr Beazley?

Mr Dumas—We are dealing directly with the current government.

CHAIR—I am just wondering whether he supports the project itself.

Mr Dumas—We have had a broad measure of support for this project throughout our discussions with the federal government and with the previous federal government. However, translating that support into funding assistance has proven to be very difficult.

CHAIR—Is there any specific thing you can identify that is blocking it?

Mr Dumas—The only thing I can identify is the inability of the federal government to have the mechanisms in place to fund these sorts of projects.

CHAIR—What sort of mechanisms are you talking about?

Mr Dumas—With programs that are in place at federal level, there is a structure to provide a conduit for the funding to go into certain agreed projects.

Mrs JOHNSTON—That would have to be a one-off type funding. There is nothing specific there.

Mr Dumas—That is quite correct. Jervis Bay, by its nature, is in the special large scale infrastructure category, which normally would go to cabinet as a special project. In the past these have. There is no program in place for it. I think that is where the inability of the federal government to come to the party in a funding sense arises. It has not got its act together in relation to being able to deal with funding these sorts of projects. We would urge the federal government, because of the national significance of Jervis Bay, to put some arrangement in place to allow the government to proceed with the development. The state government, for its part, is certainly looking for a contribution from the federal government for its project.

Mr ALLAN MORRIS—Can you give us some figures on it? You have \$160 million and a five-year

business plan, obviously. What is the revenue stream projected over the next 10 years?

Mr Dumas—The development is not a commercial development. If it was, it would be build, own, operate.

Mr ALLAN MORRIS—I accept that. But you will have a revenue stream. You will charge rent for people to use the place.

Mr Dumas—The revenue stream will depend on the amount of work done through the facility. We have not outlined any specific revenue flow as such. Let me make the point that what we are talking about at Jervoise Bay is a framework of public infrastructure investment within which there are niches for private sector investment. For that framework public sector investment—the breakwaters and lay-down area, et cetera—they are not commercial in the sense that you will not recover the money from them to justify the expenditure. In accordance with the normal way governments invest in public infrastructure, the return will be through the indirect economic benefits that will flow from increased industry development, employment and those sorts of things.

Mr ALLAN MORRIS—I understand all that. But have you done some projections as to how many dollars a year will turn over on that site if it was built in, say, four years time?

Mr Dumas—We do not have any projections to hand in relation to that. It will depend very much on the nature of projects that go through the facility.

Mr ALLAN MORRIS—If you took the view, for example, that revenue generated by the site, because of its major capital investment, was treated differently in either depreciation, taxation or other forms by the Commonwealth, that would be a way the Commonwealth could make a contribution.

Mr Dumas—I cannot see that as being appropriate.

Mr ALLAN MORRIS—Why?

Mr Dumas—Because it would be very difficult to organise it. It would rely on the state government putting all the money up front initially for the development and then it would depend on the particular circumstances and nature of projects companies win down there in terms of what sort of return comes back and how it comes back. I would find that a very convoluted system that would really not achieve the aim of trying to get this development under way as soon as possible.

I would just like to say one other thing, and that concerns, in terms of timing, an issue which I did hear raised previously. That is that we have commissioned a major study into this development. The study is expected to be completed within the next two or three months and that will define the final layout of the facility and the final cost. We have started the environmental and planning approval processes. We will be in the position to start construction on the facility at the end of this year.

CHAIR—I want to move into some of the other areas of content that you were talking about before.

We have had varying input as to what industry thinks the content is—70 per cent or 30 per cent. Could I just get an overview from you as to what your definition of that is.

Mr Suttie—The first thing worth commenting about is that it is in the nature of local content that there are at least three different types you have to be aware of. The first type is local content, which must be done on site or in Australia—physically the drains have got to be dug, the landscaping has got to be done, the civil works have got to be completed. It has got to be done here whether the developer likes it or not. The second type is, of course, the work that cannot be done in Australia. There are just certain things that cannot be made here. Compressors come to mind almost immediately. That cannot be done in Australia. In between those two extremes there is a grey area of work that could be done in Australia under certain conditions.

We work on the basis of the whole project. We say if it is 70 per cent local content that means it is the combination of the work that has to be done here, the work that has been done here, and the work that had to go overseas. So if you have got a project where you say 30 per cent of the work has got to go overseas and you achieve 70 per cent, you have done everything you possibly could. You have achieved 100 per cent on the 70 per cent. So it is really in this middle area where the big argument is.

In terms of local content, we in government are at one remove. In other words, there is a developer and there is a supplier. We are at one remove. The difficulty for the government is in fact intervention. At what stage are we intervening, at what stage are we helping, at what stage are we supplying information and at what stage are we looking after the interests of the community? In the tendering process, in my experience, the companies like us to stay out of it as much as possible, because we might somehow or other muck up the tendering process. Then we find as soon as the tendering process is finished that, if somebody did not get the job they thought they would, they get on to the government and ask why didn't the government do this and why didn't the government do that, because they have lost that particular job.

What we try to do is this—I should explain that in Western Australia we have a system of agreement acts; some major resource projects proceed on the basis of an agreement act and some do not. In terms of the North West Shelf project, we have an agreement act which goes back to 1979, which covers the onshore part of the project, and that covers all sorts of things. We do not have any agreement acts in the offshore oil and gas industry, because that is in Commonwealth waters. So all we can do at various times along the way is either say, 'There is an agreement act; here is our standard agreement act clause covering local content, and that goes for every development under an agreement act.' If it is an offshore project that does not have an agreement act or an onshore project that does not have an agreement act, then we are in the business of persuasion and an explanation of government's expectations. We go in and we say, 'Okay, is there an agreement? Here is the clause; that is what applies.' If there is not an agreement, we say, 'Here is the policy; that is what applies.' That has been the situation since the policy was launched.

There is a particular difficulty in the offshore area. We have worked very hard with our friends in APPEA on this particular point, and I am glad to say APPEA has also produced its own published local content policy to cover its members in the offshore situation; it is not very different from what the government has come up with. I heard you discuss this morning the difference between mandating local content and good intentions. People asked how can you not have one or the other and how are you going to succeed if you do not legislate? They asked, having legislated, how you are going to avoid all the abuses.

The answer, I think, is still—even after all the time that has passed—that in Western Australia the government's expectations weigh heavily with developers. There are a lot of things they rely on the state government for in their developments. If we have an expectation that they will use locals, then that really has an impact on them. When we come to the offshore areas, again I think it is a slightly different situation, because I am not sure that that expectation is coming from Canberra in respect of Commonwealth waters.

Let me give you two or three examples just to explain what I am on about. We believe the BHP-DRI project at Port Hedland, which is currently under construction, is going to achieve a local content somewhere around about 65 per cent across Australia. We think that has been particularly successful for us in the sense that when the project was first mooted, the local content looked as though it was going to be about 55 per cent. We think that because of our efforts—by various people in WA and elsewhere—we have increased that local content by 10 per cent. Now, 10 per cent on a \$1.5 billion project is \$150 million, which is still quite a lot of money.

In a mining project, a recent example has been a mineral sands project, where we have achieved 96 per cent local content. That is a fairly typical mining operation. On the other hand, in the Wanaea/Cossack project in offshore waters we think we achieved only about 35 per cent. We do not know how much we did not achieve.

There are a lot of things happening. There is a lot of technological change, there is a lot of activity in areas like modularisation, there is a lot of impact coming from the Internet, for instance: design work that might have been done here or in Melbourne or wherever is possibly done in India and put on the Internet, and it is here for the cost of a local phone call. There are a lot of technological changes in the heavy fabrication area, in the design area, in the consultancy area, in equity and participation in projects, in alliancing for projects. There is a lot of activity.

Where there is not a lot of activity—and I have to echo my colleagues' sentiments—is in Canberra. There is virtually no activity that I am aware of in Canberra. There is virtually no activity that I am aware of there at all: in fact there is negative activity in so far as the Oil and Gas Consultative Group has been disbanded completely, I think.

CHAIR—Just let us expand that a bit further. What sort of activity would you like to see coming from Canberra?

Mr Suttie—I think a level of interest from the bureaucracy would be useful. Perhaps that might be a way of looking at things like Mr Morris's point about how you would do things if you are issuing licences for Commonwealth waters—what you could put on that licence. You would put things about safety on there, you would put things about royalty on there; you would put all sorts of things on there. An interest would be a good place to start. In terms of formal vehicles, I still think that we should have at least something similar to the OGCG or MAHEG—a way of finding out what is going on. It is very difficult in government if you find out after the event all the time. I think if you start from the premise that the Commonwealth government is interested, the mechanisms will flow.

CHAIR—You imply that there is a rapid development within the industry of technology, and you

mentioned a lot of areas. In Australia, particularly in Western Australia but in Australia generally, are we ready to take advantage of the growth and development? Are there skills here? Have we got the infrastructure in place?

Mr Suttie—All my experience says yes. That is the very short answer—yes, given the opportunity. You will find our whole policy starts off from the position of fair, full and reasonable opportunity. When we have had that, the chances are that we have succeeded.

Let me give you an example. Certain pieces of equipment for the DRI plant, I understand, are steel clad with titanium. The technology involves the explosive bonding of titanium sheet onto steel. We were told originally that it could only be done in America, and that was going to be the end of the story. We found out who owned the technology in America, we managed to persuade them to transfer their technology to South Australia, and the job is done in South Australia. That is the sort of thing that can happen, given the information.

CHAIR—You have said that the short answer was yes, we have the abilities here. What are the impediments that you have identified that we should be addressing?

Mr Suttie—The impediments really come from opportunity. The main impediment is lack of opportunity if they do not know what is happening.

CHAIR—So, lack of information and distribution of information?

Mr Suttie—Usually. If you wanted to generalise overall, the main thing would be, ‘Why weren’t we told. You want to build something? Why weren’t we told.’

CHAIR—Whose responsibility should it be to tell the market that?

Mr Suttie—We have always insisted that the developer has a responsibility to tell us what they want to do and then, somehow or other, perhaps through us or perhaps through the ISO or perhaps through themselves, to tell the industry what they are about. I think it is worth saying that Woodside work very hard at this, including huge meetings of people that are hired and so on, to make sure that people understand what is going on and what is happening.

CHAIR—But do you see that primarily as an industry requirement rather than a government intervention?

Mr Suttie—No, sorry, you may have misunderstood me. Our whole process and the way we think in terms of our agreements works on the government knowing what is proposed very early on in the piece.

CHAIR—But you are not suggesting that the government should be a distributor of information to the industry are you?

Mr Suttie—Oh, yes. We have a responsibility to make it possible for people to participate. I do not

see that as intervention. If I phone up somebody and say, 'Do you know this is on the go?' and he does not know about it, then I have done part of my work. The reason that we set up the advisory group was to use the capabilities of industry associations and union associations to disseminate information.

When we sit down and say, 'Here is the Local Content Advisory Group consisting of people from the TLC, people from HEMA, people from APPEA and people from the Chamber of Mines,' the whole purpose of that is to try to make sure everybody knows what is going on. We rely on them to go to their members to try to make sure that they know what is going on.

Mrs JOHNSTON—When you talk about the government, do you mean the state government or the federal government?

Mr Suttie—I am talking about the state government.

Mrs JOHNSTON—Yes, I think you need to clarify that.

Mr ALLAN MORRIS—This is state based projects?

Mr Suttie—Yes.

Mr ALLAN MORRIS—In other words, if they do not tell you that it is offshore they do not have to tell anyone.

Mr Suttie—If it is offshore and they want something, they will come and tell us.

Mrs BAILEY—Could I pick up on a general concern that is coming through loud and clear about this lack of interest by the federal government. What have you done to stimulate interest? Mr Dumas, you mentioned earlier that you have the latest map of the Jervoise Bay project.

Mr Dumas—That is correct.

Mrs BAILEY—Does the federal minister have a copy of that latest map?

Mr Dumas—The federal government has a copy of the plan that is almost identical to this. We have made some slight changes, as I say, in this latest one, but, for all intents and purposes, they have a copy of the layout drawing for Jervoise Bay. I would like to emphasise that we have not made just one approach to them; we have continually tried to approach them, since prior to the last election.

Mrs BAILEY—That is what I was wanting to ascertain. There are major projects going on all over the country that people are talking to the federal government about. I suppose I can use yesterday as an example for this committee. I have a very large Victorian rural electorate. I have never seen an offshore platform, let alone been on one.

I can see the extent of the industry, and I think it is a very exciting industry, and I can see the

potential and the opportunities there. But I had to go out there and see it to even have much of an idea of what it was about. My point in saying that is how exciting are you making all of this potential appear to the federal government?

Mr Dumas—We have tried to make it very exciting to them. Let me make another point. Firstly, Western Australia is geographically isolated. When Western Australia goes to Canberra, quite obviously, it is a more difficult job for us than what it is for New South Wales and Victoria and Queensland, which are on the eastern seaboard. So we have that as a problem. Secondly, I do not think the federal government recognises the importance of the oil and gas industry to Australia.

Mrs BAILEY—Again, what are you doing to convince them of that?

Mr Dumas—We have, at the level of the Premier down, approached the federal government from the Prime Minister down. We have had meetings with them. We have given them copies of the plans for Jervoise Bay. We have explained the importance. Firstly, I will get back to the one issue that has come through loud and clear right across this current federal government, and that is that there are no mechanisms in place for funding these projects. Secondly, there does not seem to be the will on the part of the federal government to put those mechanisms in place.

Mr ALLAN MORRIS—Let us talk about that. Firstly, I should point out that Peter Cook initiated this inquiry. In his discussions, both privately with me and with the committee in the previous parliament, we talked about post-1989—post Goodwyn ‘A’ had not worked in the way that the government had hoped it would. There really needed to be another review. Why hadn’t it worked? What was the problem? Why had we failed? So there was an interest and an awareness. The inquiry started a couple of years ago.

I want to come back to funding. I think you have failed to understand that all over Australia there are major national projects looking for Commonwealth money. It does not matter who is in government. You have a Treasury that is going to say forever and a day, ‘Do not give it to them.’ We all know that; you guys should know it.

What you really have to do is try to work out a mechanism where that, in fact, is different. What I am trying to suggest to you is that, if your projections are right—and you have to back up your own judgment with your own money in a sense—there will be a cash flow. There will be a cash stream from the Commonwealth that will flow from this project if it is successful, as you are sure it will be, and I am confident that you are right. So what you have to look at saying is a way of creaming off back to the state to help pay for part of that revenue stream.

You are one of thousands of companies who go to the government asking for cash—all of them have major issues and all have major benefits. Go around the Hunter Valley, go around Victoria, go around Tasmania and you will find all these wonderful projects that would all be terrific if the Commonwealth could put some money in. You are just one of literally hundreds of companies. This particular case is so different because it really is an incredibly complex one. I am suggesting that the Commonwealth will benefit from this in terms of taxes and cash flows.

Mr Suttie—I do not think we are underestimating the difficulty of doing that sort of thing.

Mr ALLAN MORRIS—I am teaching you a different methodology.

Mr Suttie—To return to your point about rural Victoria, it did occur to me that they have just finished a major job at the DRI plant at Bendigo. Are you aware of that?

Mrs BAILEY—Yes. That is outside my electorate, but I am aware of it.

Mr Suttie—The biggest problem seems to be the weakness of the culverts in the country roads in Victoria to get the 160 tonne vessels up to Port Hedland.

Mrs BAILEY—Let us not concentrate on the past; let us concentrate on the future.

Mr Suttie—This is happening today.

Mrs BAILEY—What more do you think needs to be done to make the federal government interested in this?

Mr Dumas—I will go back. There are a lot of competing projects in the resources sector, but more money is going to go into the oil and gas industry within Australia than into any other industry sector over the next 10 years. This project is linked directly to that investment. It is linked directly to the capability of Australian industries to draw benefits from that investment.

It is also far more expansive in that we are talking about heavy manufacturing industries that do not exist in Australia at the moment, where machinery and equipment is imported from overseas. We are talking about import replacement and new industries, which can all develop as a result of having a facility such as Jervoise Bay, which otherwise we are not going to get here.

So we are talking here about Australia's economic future; we are talking about the ability of Australia to provide employment. We are talking about the ability of Australia to provide the conditions for industry to develop. Without Jervoise Bay and investments of this nature, it will not happen. So I would go back and say that Jervoise Bay should be right on top of the federal government's list of infrastructure priorities.

CHAIR—I just want to expand on what Mrs Bailey said. You have already gone down the track in the normal bureaucracy—from the Premier down, chatting and all those sorts of things—and nothing is happening. So what do you think should be done to make it happen? What can we do? We as a committee can probably—

Mr Dumas—I would urge the inquiry to have the Australian government look at the processes that were in place prior to the late 1970s in regard to assisting state governments such as this state to fund major infrastructure projects. Prior to the late 1970s, the federal government had a procedure in place to assist state governments, and there were many major infrastructure projects funded here in joint collaboration with the federal government. Since the late 1970s and the—

Mr ALLAN MORRIS—Who was Treasurer then?

Mr Dumas—I do not know who the Treasurer was then. The federal government's own inquiries show this quite clearly. Investment in economic infrastructure has dropped dramatically in Australia since the late 1970s. If we are going to redress that situation, if we are going to build facilities like Jervis Bay, the federal government has to go back to basics and say, 'We're here to build the Australian nation and provide employment.' To do that, it has to work with the states. At the end of the day the states deliver the infrastructure and so forth to provide the improvement in economic conditions to the nation.

Mrs BAILEY—I will just follow that up one more time. I appreciate that you cannot go providing projected profit and loss. You are speaking in generalities to us now about providing this infrastructure which is going to provide future employment, and this in turn is going to provide increased economic development for this nation. But surely you must be able to start putting some ballpark figures on this because, if government is to invest in something, it has to know what sort of outcome there is likely to be in the future.

Mr Dumas—That is quite correct. We are currently doing a major economic evaluation study into Jervis Bay which will determine—

Mrs BAILEY—Maybe that is what is going to be needed to make sure that you have the attention of the federal government.

Mr Dumas—Most certainly it is part of the package, and it is important. It will determine the economic benefits to the nation and the economic benefits to the state. It is one of those important components that is required prior to Treasury giving the final tick.

So certainly we are doing that work. We expect that work to be completed shortly, and that will be sent to the federal government. I will go back to when Peter Cook was minister. The Deputy Premier did meet with Peter Cook at the time there was a federal government oil and gas consultative committee, and Peter Cook agreed that it was not working properly and that it would be reconstituted because there are a number of Commonwealth issues the state would like to be able to talk to the Commonwealth about, but that did not happen. So, again, it is an illustration at the Commonwealth level of these sorts of issues that need to develop.

CHAIR—So you recommend a reconstituting of that?

Mr Dumas—We pointed out that the consultative group was not working properly. He recognised that and said that he had advice to that effect himself. He said it would be reconstituted to be more effective and nothing subsequently—

Mr ALLAN MORRIS—This is what the inquiry was about. That is the whole point.

Mrs JOHNSTON—Let us hypothesise. Assuming that the federal government does not play ball with you, will the state government go ahead with it?

Mr Dumas—The state government will have to seriously look at the situation should that event arise.

We are in a situation where we are asking, 'What do we do as a state government? Do we sit on our hands and do nothing, and do we see our heavy manufacturing and heavy engineering industries decline?'

Mrs JOHNSTON—Because this project has been on the drawing board for a long time—

Mr Dumas—No, Jervoise Bay itself has developed from the aluminium shipbuilding industry. The oil and gas side, while there has been a facility down there for some time, has been fairly limited in regard to its capability. In the last 2½ years—

Mrs JOHNSTON—That is a long time.

Mr Dumas—Yes, that is when we have really developed this Jervoise Bay concept plan.

Mrs JOHNSTON—Going back to the fact that the federal government is not playing ball with you again—and I do not want to underestimate the power of the Prime Minister or the Premier—have you ever considered lobbying your federal MPs who are in the state? Because, quite frankly, I have never been approached by anyone about this, and I do not think my colleague over here has. I would suggest it would be a good idea if you encouraged, through your state colleagues, your federal members to make some of these concerns known in the party room, because you will not get anything done otherwise.

Mr Suttie—It might be a bit tricky for public servants if we start lobbying them.

Mrs JOHNSTON—Speak to your minister.

Mr Suttie—I do occasionally.

CHAIR—The point that Allan made with Peter Cook and that Mrs Johnston has suggested about federal members is that Western Australia is unique, as you were saying, as the western seaboard compared with the eastern seaboard. Those MPs are quite uniquely Australian themselves, in a lot of respects, and if they do not know what is happening in the state they cannot represent the state over in the eastern states. I think the point that Mrs Johnston was making was that it might be an idea for your political people to be briefing the federal members.

Mr Suttie—We are quite happy to accept the idea.

Mrs JOHNSTON—I am sure you have other vehicles apart from your own bureaucracy through which you can get to the federal members in the states.

Mr Suttie—I think you have to understand the dynamics of this. We have a long history, as you said, coming forward to a position of 'Can we do better?' We have spent a lot of money and a lot of time, with consultants and so on, coming up with something which we think is better than the alternative, which years ago was to sell it off for nothing—to give it away. Somebody might be able to do something better with it.

Mrs JOHNSTON—I think you should think along that line. My last question to Mr Suttie is this. We

talked earlier about intervention. There has been a lot of talk about that this morning. Some countries have obviously, as we heard earlier, used strategic intervention, which has had very good results. Do you think that Australia should copy such models in other countries, particularly if we are looking at the strategy that is developed in, say, the North Sea by the UK?

Mr Suttie—We did look at the OSO some years back, and what they tried to do. We have also had a bit of a look at what the Norwegians did over the years. There is a lot of UK interest in Western Australia currently, because they have got companies looking for work now that their resources are declining. We would be a little more ambitious than that and say, ‘Well, we have a resource here and we have companies here. Can we perhaps do local resource and overseas work at the same time?’

In other words, my assessment of what happened in the UK and Norway was that they concentrated on their own resource and built up an industry—on a huge resource, certainly—but, at the same time, as that resource is now declining, they are looking around the world and saying, ‘Where can we do some work?’, and some of them are establishing in Perth. That is fine.

What we would like to do is have local companies also doing work overseas. For instance, we were very supportive, I think, of one of the jobs in Pakistan that Clough Engineering was interested in, despite the fact that they would probably have done it in Singapore anyway. The point is that a lot of activity, in oil and gas especially, is going to be in South-East Asia—not just on the North West Shelf, not just in the Timor Sea.

The biggest competitor to our next LNG project is probably one in Indonesia. The argument there is: why can we not get some of that work too? We have the technology, we have the people and we have the inclination, but maybe we have not quite got the infrastructure that we would need. But rather than just concentrating on, ‘Here’s another North West Shelf project like Wandoo,’ or ‘Here’s another Timor Gap project like Laminaria,’ maybe in the scheme of things our market is not just the Australian resource; maybe the market for the industry is in fact everything.

Mrs JOHNSTON—I should hope it would be bigger than the Australian resource.

Mr Suttie—So that element is different in our thinking compared to what my observation was of what they did in the UK. It is a very ambitious concept, and it requires a lot of not intervention particularly but certainly a lot of government nurturing, a lot of government support and a lot of government interest in what people are trying to do—what equipment they have, what they have used it for, what their experience is, whether they have got this kind of welder, whether they have got this kind of drafting capability and so on, and, if not, how do you get it. We spent state government money, for instance, during Goodwyn in training for welders. Eighty welders went through a quick crash course at Kewdale at the government’s expense.

CHAIR—Have you got a view about the impact of alliance agreements?

Mr Suttie—I have a view on those, yes.

CHAIR—Would you mind expanding?

Mr Suttie—I think they came in with a bit of razzamatazz, as the answer to everything in terms of the project. I think there were a lot of people concentrating on the advantages. Some of them are now discovering some of the disadvantages.

CHAIR—What can be done about them?

Mr Suttie—If it were a major mining project, say, in Western Australia, we would probably have an agreement act and we would know exactly who we were dealing with, and they would all sign up and say, 'Yes, we are going to do it according to that agreement' and that would include local facilities. We control things like whether it can be assigned. We have a pretty good grip on what they can do in terms of a major mining project.

For an oil and gas project, of course, we do not because we have only the delegated authority by the Department of Minerals and Energy in Western Australia, which is dictated by what comes out of Canberra. In that situation, I think all we can do is say, 'Well, let's encourage local companies to try and figure out a way of taking the equity position alliance implies.' Unfortunately, by encouraging them you might be leading them into a liability of some sort that they cannot handle. You have to be very careful how you do that. The alliances are perhaps not as successful as people once thought. That really is the market working itself out.

The bigger problem in my view is the packaging of bids—the size, the nature, the design, construction, whatever. A lot of companies cannot do the whole thing. They might be able to do the design but they do not have any construction.

Mr ALLAN MORRIS—It is packaged for a particular supplier.

Mr Suttie—Yes.

CHAIR—But is there a way of controlling local content through subcontracting?

Mr Suttie—To say 'control' is the antithesis of what I am saying. What I am saying is that we have succeeded in the mining industry and to an extent in the oil and gas industry in getting a policy adopted at Woodside and at APPEA. That is what we expect their members to subscribe to, otherwise we talk about all the other things they want. They always want a lot of other things from state government, whether it is land or licences or something.

Ms GAMBARO—I understand your problems when you speak about one-off infrastructure projects. There is no process in government that allows you to deal with a one-off situation. With the funding of Jervoise Bay, have you approached companies that are likely to benefit from the building of this project and asked them to contribute a dollar amount and the federal or state governments to match that? Or, again, are you dealing with something that is not tangible and it is difficult to get firms?

Mr Suttie—That is really for you to answer, but my understanding is that we have companies lined up willing to take it off our hands any time right through to how do they get a bit of freehold. The interest is local, national, international. It is one of the best sites for South East Asia in the whole region.

Mr Dumas—Perhaps I can follow on from that. Certainly we have had discussions with companies. I

think it has to be recognised that we could, as Geoff suggests, sell it off to a company and say, 'Well, you go and do it.' What is that going to achieve for Australia and our industry? The thrust of that development is that you will have common user facilities there—the heavy duty berth facility, the load out facility, break waters, the area for lay down and fabrication. That is critically important. If you allow a company to come in and own that, you are cutting competitors out. We have had instances where that has happened before.

There is no other way in which you can achieve the ability to have all opportunities taken up in the industrial sense at a facility like that without allowing open and free access to all the companies that can use it. You can only achieve that if the infrastructure is public infrastructure. In that sense, certainly companies might be interested in having a portion of the development exclusively to themselves but that is obviously not in the state's or the nation's interest.

What we have achieved, however, with Jervis Bay is the ability to freehold area for companies to establish their own facilities. So they would buy their own site and they put their investment on that site in terms of improvements and so forth, fabrication facilities. Then the facilities used on the waterfront, the lay down areas et cetera, are available to all parties. So the company has the ability to buy freehold land and secure their own investments on that land but the waterfront facilities are available to all parties.

For example, you can have a situation where you will have companies established down there with their own facilities, building items and then taking them to the waterfront for outloading on the common user facilities, and project managers who do not own any facilities down there who are just doing work on the waterfront through the use of subcontractors and so forth. I think that is critically important.

We certainly want companies to invest money down there. That money will be invested through the facilities they build on their own land and also there are some niche opportunities within the waterfront area for companies to invest money but on the basis that they are common user facilities. So I think it has to be recognised that that mix of public and private ownership is required to maximise our opportunities. As I said before, if we do not achieve that mix we are going to lock out from Australia opportunities we could otherwise develop.

The Department of Commerce and Trade has a large number of companies coming in continually from Norway, the UK and the US involved in the oil and gas industry who are looking to tie up joint venture arrangements with Australian industry participants. For the Australian industry participants, that gets them into the technological know-how and the financial ability to bid on large packages. As Geoff said, the packages are becoming larger. They cannot otherwise enter the market.

Almost universally, the major international companies are saying to us, 'If you do not have a facility here, such as Jervis Bay, we are going to have to do this work offshore.' That means no Australian industry participation. It means no fabrication work in Australia. Of course, if the fabrication does not occur here, the maintenance does not occur here.

So when you look at a life cycle of these projects, unless we are involved at the front end, the design and fabrication, we miss out ultimately through the rest of the life cycle of the project, through the maintenance and so forth. More and more of these packages are now becoming life cycle packages. So the

contractors who are in there doing the design and fabrication also get the work through the whole life of the project in terms of maintenance. It is becoming critically important that our industry has the opportunity to be involved right up-front.

There is one other thing I would like to say, that is, it was asked before: what can the Commonwealth do? As I mentioned previously, what is necessary is for the Commonwealth to enact a local content policy, espouse a local content policy, in order to support the local content policy that the Western Australian government has put together.

The other issue is industry itself. Industry needs to accept the ability to invest in new equipment and take on risk in terms of going for larger tender packages. I think the federal government can play a role in assisting Australian industry to invest in new equipment. I would see that as being another area where the federal government could look at assisting Australian industry.

A good example here is the autoclave example, which Geoff has mentioned previously. The question you may reasonably ask is: why didn't a Western Australian industry invest in that technology for a project done in Western Australia? The answer is that they were not prepared to take the risk because there is a financial risk involved. I think the Australian government needs to be aware that the industry needs some help to invest in new equipment to give it the capability of being involved in some of these major resource projects.

Mrs JOHNSTON—When you talk about giving some assistance, are you therefore talking financial subsidies?

Mr Dumas—I am not talking about subsidies. What I am saying is: some form of assistance appropriate to federal Treasury would assist these companies. There are a lot of other arrangements other than subsidies. I think the days of handouts are well and truly gone.

Mrs JOHNSTON—I am glad to hear you say that.

Mr Dumas—What we are talking about here is a situation where the company can obviously work with the government to achieve an aim that is to the benefit of both parties. We are not talking about just giving the company money. I think the federal government has the capability through its whole taxation regime to provide the incentives and the signal for companies to invest in new equipment.

Mr ALLAN MORRIS—I have a couple of issues to raise. I would be grateful if you would go away and rethink some of what you are saying about that process. I suggest to you that hypothecation is one alternative; depreciation is another. I suspect there are more in terms of a business plan development. I suggest that your business planners look at the business plan in terms of vehicles the Commonwealth can use which are discrete.

If you ask for money, for a cache, in two or three years you are going to wonder what happened to it all. This is very positive. You should be going ahead. But if you are going to wait for the Commonwealth to respond with a bag of money, you had probably better think again. I would be grateful for some advice. In a sense, you could pioneer a possible vehicle in which the Commonwealth can develop strategies to encourage investment by states or by others in some of these sunrise industries.

I should also point out other alliances. I have mentioned one-night stands. We go from one-night stands to arranged marriages. That is the other end of the spectrum. The point I raise with you is a much more serious one—floating platform technology. Looking at that and thinking through the implications and values, I see a real danger of your resources ending up being underdeveloped. What looks like happening is the floating platform technology creaming off part of the resource and leaving a lot of it there.

If you compare the cost of Rankin A to Cossack Pioneer—the alternative cost and the drying of the gas and all the other things that are involved—I see a very high likelihood that they will just do the easy part, and half your resources or more will be left in the ground. Is that being looked at or talked about by the state government? Do you have any concern that that kind of technology may in fact not be in the state's interest eventually?

Mr Suttie—The answer is probably connected with energy deregulation, which is coming at it from a slightly different angle from what you are suggesting. The concern in the North West Shelf is to increase the gas market so that you can get access to the oil. The way the government has done that over the last four years is to deregulate the gas market and increase the market for gas so we get less reinjection and perhaps less loss of product.

Mr ALLAN MORRIS—I am with that.

Mr Suttie—Flowing directly from that energy deregulation are projects like the Pilbara energy project, the gas to the goldfields project and the DRI plant. That is not quite the angle you were suggesting.

Mr ALLAN MORRIS—Looking at your potential in the North West Shelf and Laminaria and other parts, it seems to me that companies may well be inclined to do what they did in the old days of coalmining—go in, pick out the best bits and leave the rest behind, so you have a resource which is exploited but only at the surface level. Floating platform technology seems to be a very good value investment, but it may end up that in 20, 30, 40 or 50 years time you will have a whole lot of resources that cannot be developed because the cream has been plucked out of it.

Mr Suttie—The technique you are referring to is very well recognised in mining. It is called high grading. We are continually protecting the resource from that sort of activity.

Mr ALLAN MORRIS—I would be grateful for some comments. It is not mentioned in your submissions, but it seems to me that floating platform technology does leave open that danger. Therefore, it may well apply to the Commonwealth as to the granting of licences for procedures to go ahead.

Mr Suttie—We have never deterred the industry from using the very latest technology.

Mr ALLAN MORRIS—This is not a technology; this is an approach. It is not technology we are talking about here but resource extraction. It is going to extract only part of the resource because they can use a very cheap technology to do it but only for a certain level. That is quite different from the use of the latest technology. It may mean that a lot of resource never gets exploited because you are allowing it to be creamed off. You do not have to answer it now, Mr Suttie, but I would be grateful for a response.

Mr Suttie—I would have to discuss that with the delegated authority because it is a little bit beyond my expertise.

Mr ALLAN MORRIS—I accept that. I would be grateful for some comment and some suggestions as to alternative ways in which the state governments could hypothecate and look at Commonwealth revenues that will flow from some of these things, like Jervis Bay. Any suggestions you might have or your business consultants who are doing a business plan may have would be of interest.

are looking for ways to attract investment. The Commonwealth should be involved, quite frankly. There is no question about that. The question is what kind of methodology. There is not a program at the moment. It needs to be one which is discrete to your industry, rather than a global one, which says, 'You are good guys; we will give you the money.'

Mr Dumas—There are probably two broad ways that the Commonwealth can approach it. One is a special deal arrangement for Jervis Bay, as has been done in the past for certain projects. Alternatively, there is setting something up for Australia as a whole which will apply equally well across the nation—for other states as well. The latter approach would be saying, 'Let us set up some sort of infrastructure, some sort of pool of money, which can be dedicated to infrastructure projects which go through an appropriate initiation, prioritisation approval process.' Then there is the pool of money to fund them.

Whether that pool of money comes from a hypothecation or directly from Treasury as a consolidated revenue contribution is up to federal Treasury to determine. You could, for example, hypothecate some of the resource rent tax royalties. But at the end of the day it is money coming out of the consolidated fund one way or the other. The Commonwealth should be addressing the issue of how we as a nation deal with going into the future. Let us face it, we are going into the year 2000, and surely we should have a mechanism in place.

Mr ALLAN MORRIS—I agree with you.

Mr Dumas—Certainly we would be quite happy to formulate some ideas and refer them to the government.

CHAIR—In closing, Mr Suttie, do you have any final points to make?

Mr Suttie—One final comment would be to tackle the problem from the point of view of a very high policy level in fiscal policy, monetary policy and employment policy. That is where it eventually gets into local content. If you come at it from the bottom and say that local content is about looking after companies, you never get there. If you start from a national level and look at the policy concepts that you are grappling with—whether it is youth unemployment, training or whatever—you get to local content very quickly. That is when you start thinking about benefits, and if we are not getting benefits you ask why we are doing it. This sort of logic starts to flow, then hopefully you will become converted to the cause of local content.

CHAIR—Gentlemen, thank you for your submission today. We appreciate your time. There are a couple of things that Mr Morris asked you to address. If you could send those to the secretariat, they will be passed on to him.

Luncheon adjournment

[2.09 p.m.]

AGOSTINI, Mr Dave, General Manager, North West Shelf Operations, Woodside Offshore Petroleum, 1 Adelaide Terrace, Perth, Western Australia 6000

WEDGWOOD, Mr Geoffrey, Corporate Affairs Manager, Woodside Offshore Petroleum, 1 Adelaide Terrace, Perth, Western Australia 6000

CHAIR—The committee proceedings are recognised as proceedings of the parliament and warrant the same respect as proceedings of the House of Representatives demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. Witnesses will not be asked to take an oath or make an affirmation. However, you are reminded that false evidence given to a parliamentary committee may be regarded as contempt of parliament. The committee prefer that all evidence be given in public but, should you at any stage wish to give evidence in private, you may ask to do so and the committee will give consideration to your request. We have received your submission and we have authorised that for publication. Would you like to make any additions or alterations to that submission?

Mr Agostini—As a point of clarification, is this separate from the statement that I will make?

CHAIR—Yes.

Mr Agostini—No; I have no additions or alterations to make.

CHAIR—Please make your opening statement.

Mr Agostini—Chairman and members of the committee, firstly, I thank you for giving Woodside this opportunity to speak to its submission on Australian industry participation in major projects. I am sure you are all aware that Woodside is the operator of Australia's largest resource development project, the North West Shelf gas project.

We have elected to re-submit our 1995 written submission to the inquiry as there has been no significant change to Woodside's views on the issue of Australian industry participation nor have significant amounts of capital expenditure occurred since that date. I would like to summarise briefly the main points of the submission and then we would be please to take questions.

CHAIR—Please go ahead.

Mr Agostini—Firstly, I would like to state that Woodside, as an Australian company with its major areas of business interest currently in Australia, continues to be committed to ensuring that Australia contractors and suppliers are encouraged to enter into competitive tender for and to win as large a proportion as they can of contracts associated with major projects. We consider that it is by cooperation between industry and government that further increases in Australian content in future major projects will be achieved and this view is reflected in Woodside's written policy on local content.

Our written submission provides evidence of the well-documented historical performance of the North West Shelf gas project in this area. You will note that, with the exception of Goodwyn, where the figure is 75 per cent, Australian contractors and suppliers have consistently won in competitive tender over 85 per cent by value of contracts for which they had the appropriate expertise to qualify and to bid.

These levels of Australian participation have been achieved without intervention by government except in the case of the module fabrication contracts for the Goodwyn modules. In that case, government intervention marginally increased the Australian content but, at the same time, produced a cost increase of some \$46 million. The placement of the Goodwyn modules contract in Western Australia at a significant cost disadvantage was accompanied by undertakings on the part of the union movement regarding productivity and stoppages. These industrial agreements were not honoured. There were 84 separate stoppages during the construction period which resulted in a reduction of average productivity levels by 40 per cent. A subsequent strike offshore resulted in a further cost of \$18 million and over 2 weeks delay to the start of the Goodwyn project.

These experiences on the Goodwyn A project contrast unfavourably with the successes of the LNG Train 3, LPG and Wanaea-Cossack projects. These were not subjected to government intervention and have been delivered on time, within budget and with a high level of available Australian content. Trouble free and timely implementation of projects results in enhanced profitability and allows greater competitiveness of Australian products in world markets.

The North West Shelf joint venture participants have now largely completed investment in the construction of the project's initially planned essential facilities. We have built a reputation in the world LNG market and in Western Australia as a highly reliable and efficient supplier of gas to our customers. Capital investment in the project now exceeds \$8,000 million but, regrettably, crude oil and LNG prices have declined since the inception of the project leading to an unacceptably low level of return on this massive investment. This is a project of high commercial risk and relatively low margins, operating in a very competitive international energy market.

Project facilities in Karratha, particularly the LNG plant, are already amongst the most expensive in the world as a consequence of factors, such as their remote location, the cost of labour, housing and other services in the Pilbara. Under the terms of its development agreement with the Western Australia government, the project has diligently observed both the spirit and intent of its obligations to place as much development work as possible with local industry. As well as achieving high levels of local sourcing, we have consistently provided feedback to governments and industry with a view to promoting continued improvement and support.

The North West Shelf project has provided significant stimulus to the Australian and Western Australian economies. Most of this impact has come, and will continue to come, from the production phase by way of permanent jobs and export revenue. However, the project's contribution by way of development spending and job creation during the construction phase has also been substantial. Technology transfer to Australian industry has occurred in the areas of offshore development and in LNG processing.

The local contracting industry has also benefited from the application by Woodside of world class

quality and CFT management standards. There are still, however, a number of areas of non-Australian participation where, due to only irregular local demand or the highly specialised nature of the product, Australian industry involvement is not viable unless further overseas opportunities are developed. Examples of these are large scale compressors, cryogenic heat exchangers and the fabrication of platform jackets.

The North West Shelf venture participants are now considering options for a major expansion of project capacity based on the strong potential for future growth and the demand for natural gas within the state of Western Australia and also upon anticipated growth and demand for liquefied natural gas in the Asia-Pacific region.

In order to commit to further investment in the North West Shelf, investors will need to be convinced that innovative design along with the technological change and project management advances can produce an adequate return on this new investment, even at today's lower product prices. To maintain cost competitiveness and to attract essential development capital, internationally competitive technology and cost structures must be used both in the operation of the existing facilities and in any new developments.

With a large number of development projects, including downstream processing projects currently on the drawing board in Western Australia, there is likely to emerge a disparity between the local demand and the available supply of professional engineering and fabrication trade resource skills. In order to ensure reliable access to the required skills, some engineering and fabrication work may have to be performed outside Western Australia or, for that matter, even Australia.

I take this opportunity to stress again that Woodside shares fully the desires of both the Australian and Western Australian governments to see Australian industry given full and fair opportunity to compete for and to succeed in participating in major projects. We also share the ambitions of both the government and industry regarding the continued growth of a viable local industrial base, and we have a strong interest in the availability of a competent service support infrastructure. The long-term nature of the North West Shelf project depends on Australian industry being capable of providing support for ongoing production operations.

Based on the track record of the North West Shelf project in achieving high levels of Australian participation without government intervention, we would strongly advise against any move to increase such intervention as this would burden projects with unnecessary costs, create delays and possibly threaten their viability.

The objective of government policy should be to encourage Australian industry to compete openly and to develop the capacity to win contracts on merit. Policies which seek to protect Australian companies from the realities of the marketplace will impede rather than enhance Australian competitiveness.

In developing its policy on local content, the Western Australian government has acknowledged that economic efficiency is not enhanced by government intervention and that the key to increasing the levels of local industry participation is to work with industry to ensure that local goods and services are competitive in terms of quality, quantity and price.

As a result, the Western Australian government's policy on local content is based on the principle of

full, fair and reasonable opportunity for local suppliers to compete with outside suppliers and is consistent with the policy position that Woodside has applied to local industry participation since the inception of the North West Shelf gas project. Mr Chairman, my colleagues and I are happy to answer any questions the committee may have.

CHAIR—Thank you for your submission and opening statement. Firstly, I must say on behalf of the committee and the secretariat officially that we were very impressed and also thankful for the hospitality your company showed us in Karratha and on the Rankin platform yesterday. Speaking on behalf of some of my colleagues, they were not aware of the enormity of the project and they certainly have an appreciation of that now by having visited both Karratha and the platform.

Going on site certainly gave us an understanding as to the enormous project that it is and also the importance of it not only for certainly Western Australia but also Australia. I would be interested to know what Woodside's view is of the Jervoise Bay project and whether or not you support it and how vital you think it is towards projects within Western Australia, Australia and internationally?

Mr Agostini—When you say the 'Jervoise Bay project' I assume you refer to the Goodwyn module construction at Jervoise Bay?

CHAIR—No. I am talking about the development of the infrastructure at Jervoise Bay to enhance marine engineering technology.

Mr Agostini—We in Woodside support the development of any infrastructure in Australia that would be capable of carrying out work for the North West Shelf project and any further developments we may have in a capital development sense or in supporting the ongoing maintenance and production phase of the project which is over the long term. Jervoise Bay in its ultimate development is capable of doing that. We would be pleased to see that happen.

CHAIR—I got the impression from your opening statement, by implication more than stated fact, that you have a concern about being able to maintain Australian content in some of the projects you might have planned up there. One of the reasons for that was IR issues and also skilled worker availability. Have you anticipated the need of skilled workers? Are we in Western Australia, in fact in Australia, capable of meeting the needs that you might have in the future?

Mr Agostini—If I may turn first to the IR issue that you raised, we do have a concern in this area. The experience that we had at Jervoise Bay with the construction of the Goodwyn modules has caused us to question very heavily the undertakings that we have been given in the past by the union movement with regard to what behaviour will occur in future on projects of this nature. That is probably something that can be dealt with in the future in a satisfactory manner, but we do have a concern about it.

On the skills shortage front, it does depend quite significantly on the number of projects that are in operation simultaneously with any development that Woodside may be going into in an expansion sense. If there are a number of developments occurring simultaneously, I doubt very seriously that the local market can supply either the engineering skills or the trade skills to meet them. If Woodside were carrying out an

expansion entirely in isolation from anyone else in Western Australia doing so at the same time, that may well be possible but the quantity of skills available would not be sufficient. This is without actually quantifying. This is my perception.

CHAIR—We heard evidence this morning about the importance of distribution of information to suppliers to major projects, contractors, et cetera. Do you see that as an active role of your company to do that or would you be seeking support from either local government, federal government or industry organisations to seek participants who want to get involved with your projects?

Mr Agostini—There are two issues. One is that before we get involved in any major expansion we have in the past, and will do in the future, called a briefing for industry of what we intend to do. We have done that a number of times in the past preceding significant expansion. We also keep the Industrial Supplies Office apprised of what we are doing. We are aware that their practice is to keep the potential supply industry informed of what our plans are so that they are put in the best position possible to be able to respond to that.

Mr Wedgwood—Woodside gave a commitment some time ago to utilise the facilities of the Industrial Supplies Office in Western Australia and nationally as a means of getting information out to the supply side of the industry. We do that. In fact, in recent times we have increased the number of resources that we are putting into that communication exercise. In terms of Woodside's communications with the companies, apart from the project briefings and the ongoing contact between project managers within Woodside, we do not have public forums for further exchanges of information because once you get to that stage the project is basically in the hands of the various players and normal commercial forces overtake the process.

CHAIR—I guess part of this inquiry is looking into the involvement of government, whether government should be involved in certain issues. Are there any impediments that you have identified that the federal government may be providing either directly or indirectly to the project in the North West Shelf or in fact industry generally specialising in this area? Are there things that the government may be doing consciously or unconsciously that are providing blockages?

Mr Agostini—I prefer to respond to that after considering the matter at some length.

CHAIR—I would be interested if you could do that. We would be keen to know from your perspective whether there are any impediments, whether we are getting in the way and blocking development, again, whether consciously or unconsciously.

Mrs BAILEY—Mr Agostini, in your submission you talk about the role of government. You are actually wanting government to remove unnecessary regulation and bureaucracy including the trend to more control and reporting of Australian content. Could you perhaps flesh that out for us and perhaps give us some examples of the regulations and bureaucracy in particular that you see as an impediment to your industry?

Mr Agostini—That comment was made in the light of what occurred with the national liaison group during the Goodwyn project which initially set out to monitor what was occurring in the way of letting of contracts and purchasing of material. Ultimately, it became more interventionist in terms of causing certain

results. The Goodwyn modules in Jervoise Bay were the ultimate outcome of that intervention. That we see as negative. We have suggested in our submission, and I did again today in my opening statement, that that is a destructive process and does not add to, in fact it has the potential to detract from, the viability of resource projects. We would not recommend that it be repeated.

Mrs BAILEY—Could you also perhaps give us any examples of impediments that government may put in industry's way in allowing industry to become more cost competitive?

Mr Agostini—The obvious example is the intervention that occurred in directing purchase of material in a way that is not cost competitive with the lowest possible purchase price. That has the potential to cause the development to become less competitive with its international competitors. That is not in the interests, as we see it, not only of the development itself but also of Australia. There were further things beyond that. I understand the question to be similar to that which the chairman asked a while ago. I prefer to incorporate the answer about other concerns we have, and any other issues that are along the same lines, within the answer to that question.

Ms GAMBARO—Technology transfer in your company has benefited a great deal from that. How has that interchange occurred with transfer of technology from overseas?

Mr Agostini—The transfer of technology into Australia has occurred in a number of separate ways. Firstly, with the use of production processes and design processes with which we were unfamiliar, because there was no equivalent industry in Australia when the North West Shelf started, we used the resources of our technical adviser, which is a Shell international company, to design the initial plant that we built in Karratha. The team that did this, whilst being initially run by the senior design people in Shell, had within it a large number of Australian engineers who went through the experience of that design phase and brought back with them the knowledge that came out of that. This achieved the technology transfer in one way that you referred to.

The second way in which this has occurred is that companies in Western Australia and Australia which have done supply and contracting business with the North West Shelf have formed joint ventures with other similar contracting companies from overseas to be able to meet the technical specifications of the project. In putting together those joint ventures, they have experienced the technology transfer from their partner.

Some of those joint ventures have survived and some have not after the construction phase of various parts of the project. Nevertheless, the Australian partner has certainly had the opportunity to be on the receiving end of the technology transfer to which I refer.

There is in addition to that within Woodside itself the ongoing participation of people from the Shell technical centre in The Hague. They bring with them a level of know-how that is not always available to us here. The other side of that is that we transfer Australian Woodside employees into the international scene where they spend two, three or four years working on these sorts of sites using this same sort of technology. They then come back to Australia with a much broadened and enhanced technical understanding of what they are doing. So by that transfer of personnel in both directions, we also achieve some significant technology

transfer.

Ms GAMBARO—Specific materials and equipment that are not available in Australia are subject to tariffs. Would you like to expand for the committee on the types of materials that are subject to tariffs and on the government policy in this area? What are your long-term views here?

Mr Agostini—We are making the point that, where material is not available, it cannot be purchased in Australia, we see little rationale for duties being paid on the import of this material inasmuch as it is not protecting a local industry or a local alternative source. I am not in a position to give you a listing of what those materials are. I have to ask you to accept my responding subsequently.

Ms GAMBARO—Thank you.

Mr ALLAN MORRIS—I think I mentioned to you earlier that on pages 29 and 30 of your submission you refer to the problems that were experienced at Batam and South Korea without putting a value on those. I would be grateful if you would let us know what that cost the project in both the jacket and the modules. Perhaps you could do that on notice. In the last paragraph on page 29 and the first paragraph on page 30, whilst you cost the Australian cost to the project in terms of Jervoise Bay, you failed to quantify there.

Mr Agostini—I will respond to that.

Mr ALLAN MORRIS—Thank you. I have asked this question of the state government departmental officials earlier and it is probably appropriate to put it to you. There is a concern in my mind that, because of the nature of the floating platform technology, FPSO, companies may end up underexploiting our resources. In other words, companies may cream off the easy part of a resource; bangs for the buck. Rankin, as you pointed out, is a massive investment, but you get everything out of it. You really extract every skerrick of gas, condensate and whatever is available. I have heard the possibility that FPSOs might mean that companies will cream off the easy parts and leave part of the resource behind. Is that a danger?

Mr Agostini—I do not think it is a realistic danger and I will expand on why. The responsibility of the designated authority—the Department of Mines, Minerals and Energy—is to accept the exploitation plan for any hydrocarbon reservoir and that includes the point at which you can abandon it. In any state in Australia there is an authority that carries out that function. I do not see it as being reasonable to accept that the Department of Mines, Minerals and Energy would allow someone to remove a small portion of, or an easy portion of, the resources and to move away when it is uneconomic.

Can I put to you a second point on this? I would submit that the use of FPSOs actually increases the recovery reserves in Australia because there are large numbers of oil reserves which are too small to be able to handle the economic burden of the capital costs of a platform. Without the FPSO technology they would just not be exploited at all.

Mr ALLAN MORRIS—I accept that. But, for example, if Cossack was further away from Rankin than it is, would you bother taking the gas from Cossack? The cost of infrastructure on Rankin is largely to

do with gas and separation. That seems to be a large part of the cost.

Mr Agostini—On Rankin, yes.

Mr ALLAN MORRIS—Whereas at Cossack it is not so involved as Rankin nearby so you can pump it across. But if it was not nearby would it not be likely that a developer would say, ‘We will just pump the gas out and let the gas run and pick up the condensate because the cost of putting out the gas is so great it would reduce our profits.’

Mr Agostini—We would not do that. We have a specific policy on this. Firstly, the gas is dried on Wanaea/Cossack. It is not taken across to Rankin to be dried. So it is export quality when it leaves there. In circumstances where there was not a platform nearby to take the gas to, if there was what we call a very low gas/oil ratio at the facility, where the gas that would be lost was extremely low—and there are some reservoirs like that, not many but there are—then our policy would be to exploit it without capturing that gas. We would be dealing with very small quantities.

The Cossack oilfield is like that. The Wanaea oilfield is not like that. If there are significant quantities of gas involved, we have two choices. One is to export that gas to a gathering facility like North Rankin. If that is too far away and uneconomic, to gather it, compress it and reinject it back into the reservoir. It is contrary to our policy to flare large quantities of gas for the exploiting of oil.

Mr ALLAN MORRIS—You have referred to your technical adviser in the Hague. North West Shelf has six shareholders, which include Chevron and BHP both of which have technology in this area. Is there any reason why Shell has to be your technical adviser? Do you actually bid for that? Do you go to tender for technical advice? I would have thought other companies like BHP or Chevron could well supply that advice. How does that work out? Who decides that role?

Mr Agostini—I preface what I am going to say by saying that we think it is important that the entire North West Shelf project is integrated as a single whole with consistent policies through it, not just upstream or downstream. You are correct when you say that companies like Chevron—and BP was another one of our partners—have the technical capacities to support us offshore in the upstream part of our business. They do not have that capacity downstream. Chevron does not have a LNG plant anywhere in the world. BHP does not have a LNG plant anywhere in the world or not a base load plant. The only one of our partners who has that technology—it is the downstream side of the business; they are partners in the plant at Karratha—is Shell.

Mr ALLAN MORRIS—So if we were going to ask you how you become an international player yourself—in other words, how you would develop in the South China Sea or somewhere else—I suppose the answer would be only if Shell lets you or only with Shell’s advice, because if they own your technology, if they are your chief technical adviser, then you can only do what they let you do. What is required for Woodside to become independent and be an adviser itself to other companies or a joint venture in Vietnam, for example, or something similar?

Mr Agostini—The day before yesterday in Karratha I gave you a presentation in which I referred to

the mission statement or the vision statement of Woodside. I outlined to you what we saw as our purpose in life. That said that we saw it as being a profitable investment in the oil and gas business largely in Australia. We have moved marginally out of Australia to Papua New Guinea and we may well continue to move in selected investments outside of Australia in due course.

This is not an issue of independence from or lack of independence from Shell. We serve our shareholders best by investing in and making profit from what we know best. The technical capability to keep on doing this with partners other than Shell is something which we are acquiring through the technology transfer phase. There are other reserves or other exploration leases we have where we are exploring with other partners. Shell is not involved. The ultimate development of those may well occur without Shell's involvement.

CHAIR—We had some evidence this morning regarding alliances, whether or not they are a benefit, whether it is better to form an alliance to move overseas or to compete with overseas people. Do you have an opinion on these alliances, whether they are beneficial?

Mr Agostini—Alliancing, as a form of contracting, is something which we do not have long experience with but we have some recent experience, particularly in the maintenance and support phase. Our experience would suggest that this is in fact a viable way of doing business and a preferable way of doing business.

We went out to 16 companies, most of whom were joint ventures because we were interested in an integrated service both engineering and execution—very few companies have both arms so they were mainly joint ventures—to form an alliance with Woodside for the purpose of supporting facility minor modification and maintenance. Most of these joint ventures were overseas joint ventures. In the end, through merit we ended up awarding this to an Australian joint venture—Transfield and Worley Engineering. Transfield/Worley as they call their joint venture.

That organisation and ourselves have put together an alliance arrangement which I think is of benefit to both companies as compared with the traditional contracting arrangement. It is because it structures a relationship between a client and a contractor in an alliance in a way that you share the gain and share the pain from things that are accomplished and things do not work so well. The contractor's remuneration is structured in a way that provides him the incentive to meet the client's objectives rather than to try to cream off the largest possible profit he can while minimising his cost. So a properly structured alliance arrangement I think is extremely beneficial but it needs to be properly structured to work effectively.

CHAIR—Could this lead to a less than open tendering process, though?

Mr Agostini—I do not think it is valid to say that it is a less open tendering process. It is not as rigid as a closed tender, which is based on price only, process. But there is no reason for it to be less open.

CHAIR—Is there any argument to encourage government to intervene in this alliancing process to make it a more open tendering process?

Mr Agostini—I cannot see any reason, any rationale, for government being involved in this any more than any other form of contracting.

CHAIR—The only reason would be that there may be complaint from others who are not part of the alliance that they are not getting fair access to tendering.

Mr ALLAN MORRIS—Not fair competition.

Mr Agostini—Having gone through the experience, as I said, once with 16 companies and gradually worked our way down to a short list and ultimately to one partnership, my experience with those 16 is that they understood fully the rigorous way we had done the evaluation. There was no suggestion, to my knowledge, that there was anything wrong. I carried out some interviews with the unsuccessful tenderers and there was no suggestion of that having occurred.

Mrs JOHNSTON—I understand that you did mention that you thought government and industry should work together and there has been a lot of talk today by various people about the levels of government intervention. Could you perhaps outline to us what you would see the chief aspect or the chief roles that government at both state and federal levels could provide to work with industry without actually imposing its bureaucratic will on industry?

Mr Agostini—The government has a responsibility to ensure that the communication between the project developers and the potential suppliers and contracting firms is as open and as effective as possible. There is potential for leakage of what could be Australian content away from Australia if that communication is not effective, if the contracting industry and the suppliers are not aware of the opportunities that are arising and become aware of this too late. Organisations like the Industrial Supplies Office are an effective role for government in assisting this process.

Mr ALLAN MORRIS—On your point about joint ventures and technology, one of the ways that we achieved a technical transfer to Australia in defence projects was by the government requiring that the Australian contractor be the prime in the joint venture and that the technology be transferred and resident in Australia before they could use it. In other words, if you were using a designer for your next stage, then technically you could require that designer to bring their knowledge onshore and base it here. What you added to it by spending with them became partly owned by you and your contractor. Has that concept been considered—is it able to be considered? Would you rather take it on notice?

Mr Agostini—I will make a statement on it, and if we care to follow it up with further statements we will do so. In choosing how this is done, we are very conscious of the need to end it with the most cost effective result. If that means that the prime contractor is not the Australian contractor, then that is the result that we would pursue. We would prefer it be an Australian contractor, but if that would not yield the most cost effective solution then we would seek the most cost effective solution. I am not sure what the rationale is for what the defence department is doing. We are very strongly conscious of our need to ensure that the shareholders are treated equitably and properly. That is our prime objective.

Mr ALLAN MORRIS—If the Australian taxpayer spends money designing submarines, teaching

people a lot of skills in the process, and they then go and design someone else's submarines, then part of that added value is actually captured by the government. In other words, part of what you spend teaching your designers to be even better than they were would be captured by your company or by the companies that were contracted to you. So there would be an ongoing benefit to your shareholders in that they had made somebody else better and not so dependent on somebody else.

Mr Agostini—We think we capture that through the technology transfer process I referred to earlier.

Mr ALLAN MORRIS—But you also point out that most of the joint ventures have failed.

Mr Agostini—A number of the joint venturers are contractors to us after the completion of certain phases of the project have not continued. I would submit that that is probably a reflection—this is my personal view—of the fact that they were not viable in the first place, that they were being supported by this project. Had they been viable businesses, they would have gone on to seek business outside of Australia while there was no other project operating in Australia as joint ventures.

Mr ALLAN MORRIS—If you go back and check the public debate of the early 1980s, when the same arguments were being proclaimed, you will find the argument was, whilst ever an Australian company was a passenger or junior partner, the marriage of convenience would last only as long as the contract. As soon as it was finished, the joint venture would be separated, not at the Australian company's initiation but the overseas one because there was no benefit to the overseas company once the contract was completed. But when the Australian company was the prime, then the overseas partner to stay involved was required to stay in the venture. It was the actual positioning that was so critical to that.

Go back and look at some of those comments. I think the Institute of Engineers made some submissions on that, and we can talk about it at a later time. I would suggest that many people would take that point of view rather than the one that you have put forward. You have a capacity to make the Australian company more secure in the relationship, if you so choose, as a prime. Or an overseas company may need to work through the Australian company, therefore you may end up with that advantage. I am not looking for a response, either. When you read the *Hansard*, you might think about it.

Mrs BAILEY—Would you comment on the standard of Australia's industrial relations and the record of health and workplace safety and compare that to the standards of those countries that take part in the international bidding process?

Mr Agostini—We have a reasonably high standard of HSE—health and safety environment—in Australia. Our achievement is not as high as that of some of the companies with whom we do business in Europe and in the States, but it is somewhat higher than in some of the countries where we have sought material in this region. So we do business both with countries that have achieved more and with countries that have achieved less.

In those cases where we do business with those countries that have achieved more than we have, there is something for us to learn about how they do it, and we have learnt and we have improved as time has gone on. Where we have done business in countries where standards have not been as high as those we

demand, it has been necessary for us to put some effort into ensuring that what they do for us is done in a way that meets our standards: that the work standards at the workplace and the accident record of the workplace reflect the standards that we demand. That may require some extra effort on our part, but that is something that we do in those circumstances.

Mrs BAILEY—This may seem a simplistic question, but is there one thing that the federal government should be doing in your opinion to assist your industry? You have raised a number of points in your submission, and a number of questions have been asked; and I suppose I am asking you to prioritise. Is there one overriding factor that the federal government has overlooked or is not paying sufficient attention to?

Mr Agostini—Could I ask to take that one on notice and answer it together with the ones on impediments of the federal government?

Mrs BAILEY—Sure.

CHAIR—Your submission urges the government to follow the lead of some countries in relation to bureaucracy and reporting on local content. Are you able to identify which countries we should be following the lead of in these areas? If so, what are some of the things that they are doing that we should be doing?

Mr Agostini—Can you direct me to where it says that? I am not familiar with the sentence.

CHAIR—I will refer that to my secretary. The reason for this inquiry is to find out if we are utilising our resources in the best way we can. Is there any sort of help that we, as a government, can give to local businesses? Is there anything that is happening that should not be happening? Is the local tendering process open and is everyone happy with it? You have suggested a 70 per cent local content, yet businesses still say they are unhappy about getting access to the project. The implication from your opening statement is that, unless we improve some things in Australia, a lot more stuff could be going offshore. Are we at a stage where we are in crisis and, if we do not act now to try to do something, a lot of this may in fact be going offshore?

Mr Agostini—In that context, we need to understand that there is a limit to the resources that we have in Western Australia and in Australia. When there are development projects that are very large and numbers of them are occurring at approximately the same time, there are just not the resources to be able to deal with the implementation of all those projects at the same time. We have to expect some of that demand, if it is going to occur in that time scale, to be handled by bringing in resources from elsewhere.

But I also think that we overconcentrate on the capital element of these projects. Looking at the Clements report on the effect of the North West Shelf project, for example, on the community, it is not so much the capital expenditure that affects the country; it is the ongoing aspect of the business. There, we have a much greater capacity to deal with, support and benefit from the ongoing side of the business. The heavy concentration on trying to capture the capital part and ignoring the effect risks causing some of these capital projects not to make it across the threshold. Therefore, as a consequence, we would risk missing out on the ongoing benefits of the projects in their continuing life. We need to make every effort we can to capture all the benefit for the community, the suppliers and the contracting fraternity in the capital phase, but not to the

point of starting to threaten the viability of the projects involved, because I do not think that is in the community's interest.

CHAIR—So you are arguing that it is better to have a project up and running for the ongoing benefits to the community and the country, than it is to focus on the capital works?

Mr Agostini—I am saying that concentration only on capital works puts at risk the ongoing benefits.

CHAIR—To get an idea of how big the project is up there, if the whole North West Shelf and the resources available from that region was, say, 100, what level are we at now in using that resource?

Mr Agostini—The gas resources in the North West Shelf?

CHAIR—Yes.

Mr Agostini—The proven reserves are one issue. But if you take what we could reasonably expect ultimately to be the reserves that will be recovered from the North West Shelf—and it takes a bit of faith to be able to say what that is likely to be—the general view is that there is probably something like 100 TCF—100 trillion cubic feet—of gas there. To put that in perspective, the North West Shelf today, exporting seven and a half million tonnes of LNG to Japan and supplying 80 to 85 per cent of all the gas that comes down into the metropolitan region, uses about half a TCF a year.

CHAIR—There is another point I would like to clarify in my own mind. Obviously, once one well goes another one needs to be put in, and there are capital needs to get into new wells. But is the whole project currently underdeveloped? If you were to bring more capital in and open more wells now, firstly, are you capable of handling it and, secondly, is there a market for it anyway?

Mr Agostini—I am speaking here specifically of the gas end of the business, as opposed to the oil side of it. The gas business tends to be very market driven. There is not a spot market in selling gas; it is not an easily transportable liquid, therefore it is mainly pipeline sold or LNG sold and that tends to be a market driven industry. The rate at which we would develop those gas reserves would be the rate at which we could effectively market them. Therefore, it is not a capital restriction issue.

CHAIR—So what you are saying is that the whole project is based on user demand—if you had the consumer demand you would be able to expand up there?

Mr Agostini—Yes; if there was more demand we would expand. As I foreshadowed the day before yesterday, there is an expansion phase that is currently in the planning of the project to meet some anticipated further demand.

Mr Wedgwood—To add to that, there are a number of overseas projects that are competing for the same window of opportunity in the international marketplace, so any action taken by government to force the project to have a prescribed level of local content, for argument's sake, disadvantages an Australian project relative to its competitors.

Mrs BAILEY—Just on that question of local content, it is a very difficult area and government at all levels wants to see an increase in local content, but how does one achieve that? You obviously do not want to see government prescribe any fixed percentage, for example. What in your opinion is the best way to increase that local content?

Mr Wedgwood—I will respond in two parts. The logical consequence of government prescribing levels of local content would be to make the project uncompetitive internationally. As a consequence, you either delay for a time period or—

Mrs BAILEY—Could you explain why you believe that would make the project uncompetitive?

Mr Wedgwood—Basically, at the end of the day, the issue is cost of the end product delivered, in our case into Japan. If, say, a decision to impose X level of Australian content resulted in a 20 per cent cost increase in the capital expenditure of the project which finds its way through to the per unit cost of the end product—

Mrs BAILEY—To the cost that is coming in the cost of labour?

Mr Wedgwood—It might do; it might come in the cost of steel used for construction. There are a whole host of potential cost increases. In the history of the project, at different times for strategic reasons, the project has chosen, where the cost differentials are reasonably small, to go with the more expensive cost item. The issue is not always cost—there are other issues. But, at the end of the day, if you—

Mrs BAILEY—As long as that cost is reasonably close?

Mr Wedgwood—Reasonably close, and there is a strategic benefit in a life cycle analysis of the project. But, at the end of the day, all of these things add to the final cost. There are wins and losses along the way. At the end of the day, the ultimate issue is the price of the end product into Japan.

Mrs BAILEY—What measures would you suggest to us to improve the amount of local content?

Mr Wedgwood—In my view, one of the issues that some of the questions have not addressed yet, particularly from Mr Morris, is how you might tackle the issue of the supply side of the question. Most of the focus has been on what you, Woodside, do in putting together a major multi-billion dollar resource project. One of my personal concerns is that, on the supply side, there has not been enough done in certain areas to ensure that Australian industry is competitive. You have issues of micro-economic reform, such as waterfront reform, industrial relations reform—

Mrs BAILEY—Dare I suggest, taxation reform?

Mr Wedgwood—and, last but not least, taxation reform. As an example of the impact of taxation, if you look at FBT, I cannot give you the figures at the moment but FBT is a considerable cost for our project in housing people in Karratha. That has an impact on Australian content, it has an impact on the level of work that goes into the region, because of the additional costs involved. They are examples of changes the

government could involve themselves in which would actually be to the benefit of Australian industry.

At the same time, there is also this issue of communication. When we had the discussion the other night, I likened it to a company wanting to sell Holden motor vehicles to Woodside. That is fine. But, at the same time, you would not expect Woodside to go out and purchase the Holden motor vehicle franchise for the individual to end up doing business with Woodside. Surely, it is the responsibility of individual companies out there to get themselves in a situation where they are capable of doing business at the level required.

One issue is in the area of safety. Obviously, if a water pipeline blows up, it is a problem. But if a gas pipeline is to malfunction and explode, you have a major issue; not only the environment, but also people's lives are at risk. The standards and quality assuredness required in our industry are at a much higher standard than in most other industries.

CHAIR—I guess your argument then is that if the Holden dealership that could supply those vehicles was in Singapore, and you could get them cheaper, why should you be restricted to dealing with someone in Australia when you can get the same product elsewhere. What you are arguing, I guess, is why Woodside should be subsidising these other practices that we are talking about.

Mr Wedgwood—Essentially, yes. Past experience has shown that there are companies capable of accessing the Holden dealership, but most of the work in doing that needs to be done by themselves. It is then a simple commercial decision, in a lot of cases, as to whether or not business will be done with them.

CHAIR—Your argument then becomes: 'We are very happy to have a high local content component but, on the roundabouts, if you want us to do that, then you have to become competitive.'

Mr Wedgwood—Yes.

Mr Agostini—Competitive not only in price, but in quality.

Mr Wedgwood—It is price, quality and timing. But, at the same time, we recognise that we have an obligation to make sure that the information is out there in an appropriate time frame. Writing tender specifications in Swahili and giving people a week to tender is not appropriate either; that would be an act of irresponsibility on behalf of our company—and, obviously, we do not.

CHAIR—Therefore, the implication that you are making to us is that there is an issue but that it is not just one for you to consider: it is an issue for all the stakeholders—industry and government—to be considering, to make it easier for this project to continue. It will continue, but it should continue with local content.

Mr Agostini—The other issue that we need to be conscious of—and it is not easily fixed, I acknowledge—is the issue of the cost input from the industrial relations track record that we have in this country. With a few exceptions, that has tended to be a significant addition to the manpower costs of most projects. When we do an estimate of an expansion or a new project, we spend quite some time determining

what in fact the net manpower cost is going to be, and that turns out to be quite high.

Part of that problem is the industrial relations issue. That has the potential not only to make projects fail to cross the threshold but also to drive work overseas. It has the potential, for instance, to have people thinking of building equipment in modules overseas and bringing those modules in, as opposed to putting it together here locally, to try to escape that problem. Reform in that area would be fairly important, if we were going to achieve the objectives that you are aiming at.

Mrs BAILEY—We heard earlier today that, if modules are built overseas, it is often the case that the maintenance of them is also done by the overseas firm that built them. Is that your experience?

Mr Agostini—No. It is the components in the modules that will determine if there is an overseas input into the ongoing maintenance. If there is, for instance, in the module a very large turbine that was built somewhere in Europe, then it is likely that we would have an ongoing relationship with that firm in the maintenance of that large turbine. The actual construction of the module, with various components in it, does not in itself cause us to bring someone in; it is the components within it which do. Many of the components within a module built overseas in fact have come from Australia. But there are certain elements that are just not made in Australia, and those are referred to in that submission—things like the big large gas turbines, the cryogenic heat exchangers, and so on.

CHAIR—In summation, would you like to make a closing statement?

Mr Agostini—Only to thank you for the opportunity to make this submission to the inquiry. We will follow this up with answers to the questions that we took on notice.

CHAIR—Please do that. Again, let me thank Woodside for their hospitality over the last two days. It has been very much appreciated by the committee and has certainly given us an insight into the whole project up there. Thank you.

[3.45 p.m.]

COOKE, Mr Tony, Secretary, Trades and Labour Council, 27 Brewer Street, Perth, Western Australia 6000

FERGUSON, Mr John Kilday, Assistant State Secretary, Australian Manufacturing Workers Union, 1111 Hay Street, West Perth, Western Australia 6005

CHAIR—The committee proceedings are recognised as the proceedings of the parliament and warrants the same respect that proceedings in the House of Representatives itself demand. Witnesses are protected by parliamentary privilege in respect of the evidence they give before the committee. You will not be asked to take an oath of affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as contempt of parliament.

The committee prefers that all evidence be given in public but, should you at any stage wish to give any evidence in private, you may ask to do so and the committee will give consideration to your request. Thank you for attending today. We have a submission which we have authorised for publication. Would you make any additions or alterations to your submission?

Mr Cooke—Other than additional comment in elaboration at the request of the committee, we do not want to vary the detail of our submission.

Mr Ferguson—If I could ask: which submission is it? Is this the one we submitted last—

CHAIR—In 1995.

Mr Ferguson—We have another written submission, if that is in order, that we would like to submit today.

Mr Cooke—I am sorry; that is a misunderstanding. I thought you already had the copy.

CHAIR—We can take that submission today.

Mr Ferguson—I think you will find that there are some variations, but it is pretty much the same as the last one.

CHAIR—Would you like to do that now?

Mr Ferguson—Sure. How many copies would you need?

CHAIR—About a dozen. We will take the lot.

Mr Ferguson—We will hang on to one. As an attachment, we also have the publication, *Australia in transition*, which has been published by the AMWU, in regards to industry development.

CHAIR—The committee authorises for publication the joint submission from the Trades and Labour Council of Western Australia and the Australian Manufacturing Workers Union, inquiring into Australian industry participation in major projects, dated 30 January 1997. *Australia in transition*, a publication from the Australian Manufacturing Workers Union, is accepted as an exhibit. That being said, would you now like to make an opening statement?

Mr Cooke—I would; thank you for the opportunity. The Trades and Labour Council of Western Australia obviously has primary responsibility and concern for developments in this state. We do not wish to be seen today to be making submissions to the committee based on parochial interest. There is a good deal of complementary content in the subject matter in the submissions put before the committee by both the state government and the CCI—that is, the Chamber of Commerce and Industry of Western Australia. We have actually liaised with both bodies.

We do not believe that those submissions should be read as a parochial interest representing purely Western Australia. We actually believe that the issues are issues for all Australians, particularly to the extent that Australia's export earnings are significantly based on the resources sector and commodities production out of Western Australia. That sector is the most highly competitive in the global economy, subject to the most severe international competition for price and demand. We believe that the issue of vulnerability and exposure to global competition out of that sector is a matter of concern for all Australians. What we seek to do is to put before the committee the plea for greater government intervention so that we can exploit what may be a relatively short-term advantage in terms of our commodities production in the global market into long-term advantage by the creation of necessary infrastructure. This will deepen our economy and sustain it when that sector—that is, the commodity sector—comes under intense competition.

From a trade union perspective, we have already seen locally what is regarded as reprehensible and brutal conduct towards, for example, underground miners at WMC in Kambalda. We can respond as unions, but we cannot respond as to why a company does what it does. We do not endorse or agree in any way with the way in which the company handled the situation. We understand that the situation was that the company fully expected that the floor would fall out of nickel prices by the end of the decade with new suppliers coming into the global economy and prices falling accordingly. As employers, they sought to shed their responsibility and the burden of obligation towards their primary workforce by offshoring that workforce to contracting companies.

I do not agree with the approach, but from a trade union perspective we have to be mindful of the impact, day to day, on industrial relations, and we are. But we are also very mindful of the need to ensure that we take the advantage that we have and that we do everything possible to convert it by way of direct investment so that we deepen our economy and avoid what threatens, at this stage, which is, in our view, basically, a crushing of the capacity of the manufacturing sector in this country to regenerate itself after the shocks it has experienced over the past 15 years or so.

Mr Ferguson, of course, comes directly out of the union, with immediate interests in that sector. I can indicate to you from the TLC's point of view, that we are informally working with a range of organisations from the employer ranks and from the WA state government, because we share a common objective in these areas. We have our differences of view, but we are prepared to work closely with those who may be seen as

strange bedfellows by others, but with whom we are happy to work, provided we see a common agenda that delivers benefit. That benefit in our view is not just benefit to Western Australian workers; it can be benefit for all workers throughout the country, and to the economy in general and, thereby, the population of this nation.

Mr Ferguson—From the AMWU's perspective, we have been intimately involved in a number of resource projects over the past decade and before. Our members work mainly in the manufacturing and fabrication area and in construction. We have been involved in some of the major projects and, in particular, with the North West Shelf. We had several thousand members during the construction phase and, if you apply the multiplier effect, then you can multiply that three times by the various service and fabrication industries that supported that.

As far as local content goes and, in particular, as far as Western Australia getting the fair wack of the work, for a period of time we were quite satisfied—I suppose we would never be totally satisfied until we had got 100 per cent of the work—at the levels of local content, particularly round about 1987 and 1988 during the phase 2 of the North West Shelf and the Burrup Peninsula. You can read by the material that we submitted that we placed the reason for that on the various groups that were formed, such as the National Liaison Group which was a tripartite organisation that looked at various contracts that were to be awarded on the North West Shelf. They looked at where those contracts were going or to maximise the local content as applied on the North West Shelf. That group was disbanded, and we have seen a dramatic reduction in local content since the disbanding of that group.

I must say that since then there has been an increase in the number of projects in other sectors and in the number of projects that were not associated with that particular developer, Woodside. A number of other developers, due to oil and gas finds in the North West Shelf, have started developing various sites, or areas, people like Ampolex, Western Mining, WAPET and various others. We have been quite concerned—I do not know how strongly to put it—about the level of local content of some of these projects, in particular, and the way in which some of these developers have been going about it.

An example I could use would be the Wandoo project for Ampolex, where a joint venture was formed. Joint ventures, we believe, can be of an advantage to the state and the nation because they bring in technology. Theoretically, we are supposed to learn from some of our offshore joint venture partners, but on occasions it does not quite work that way. For that particular joint venture, all of the fabrication work for Wandoo was done, as we understand, in Keppel's yard in Singapore. Australian contractors did not even get to bid for the work because of the nature of the joint venture. We are most concerned that that trend will continue. If it does continue, obviously we are not going to get the work—not in Western Australia, not in Australia.

We are forever talking to contractors and developers about projects that come up, projects that they intend to develop. We have been somewhat reactive to these projects: we wait until the project is announced, we have a briefing, then the developer may tell us that a substantial amount of the work is going offshore. That leaves us with various options for what we can do. We believe that there should be some sort of mechanism where we should be sitting down with the developers and looking at why a substantial amount of this work is going offshore and at some mechanisms to maintain it in Western Australia.

We have also been intimately involved on a tripartite basis discussing the question of infrastructure, particularly how it applies in Western Australia. We have been discussing the development of Jervoise Bay. No doubt you are aware of Jervoise Bay and no doubt quite a bit has been said about it—some positive, some negative, depending on who you talk to. We have been involved for the past two years with the state government in discussing, initially, the perceived industrial relations problems and looking at formulating an industrial agreement that could apply to that site and that would accommodate all the parties involved. We believe that we are coming very close to a position now where we have reached an understanding. We recognise that there has to be some type of culture change.

Leaving all that aside, there is general recognition within industry that there has to be investment in infrastructure; that we have to have some sort of permanent world-class facility if we are to compete more readily with South-East Asia. If we do not do that, then the industry is being reactive. The two major jobs that took place there, Rankin and Goodwyn, were 10 years apart. That is a long time between drinks. You wonder, when a major project such as that takes off in an environment such as Jervoise Bay, why they wonder why there are industrial relations problems. I will be quite frank about it: when it is 10 years between jobs and the workers get on the job, they are going to give it a bash to get as much out of it as they can, because they think the next job is going to be 10 years away. That is human nature—right, wrong or indifferent—and I do not think we should be debating that. Needless to say, we have recognised that as a problem, and industry has recognised it.

We believe one of the ways to resolve the problem—and I am not saying it is going to be the panacea for all our problems—is to directly invest in infrastructure and that it should not be project driven; the infrastructure should be there. We should have the facility, we should have the work force readily trained, we should have the site agreement and we should be saying to the developers, ‘Here it is—now what? What is your next excuse—what are you going to use now?’ They always hitched their wagon to the industrial relations problem. Then when that did not work, when they saw that was getting fixed, they hitched it to the skills shortage problem. Then they went back to the industrial relations problem again. We were getting quite sick of it. I cannot put it any more honestly than that. We will be quite willing to answer any questions you may have with regard to our submissions.

CHAIR—Before my colleagues ask their questions, there are a couple of points I would like to ask you about. I would like to get a general overview from you of IR issues in relation to the North West Shelf and Jervoise Bay, and how you perceive them. You said that it was human nature that people wanted to squeeze the orange and get as much juice out of it as possible.

Mr Cooke—It is a particular culture that develops out of a construction mentality. This is one of the issues. If you have 10 years between jobs, and it is seen as a major job with lots of money being spent, I must say that becomes a problem for the culture of companies too. There is a lot of cost-plus contracting, and the like, which companies struggle to keep under control in that sort of environment. In that environment, workers have a tendency to say, ‘This job is only going to last six months; the money is really good; we only average eight months paid employment in a year, so wouldn’t it be nice if it went for an extra two months instead of an extra month, or if we could get an extra bit of pay out of it in the month that remains?’ Those are the sorts of environments that generate that, and of course you end up with a situation where the unions are left to represent and manage those sorts of disputes as they arise.

I must say that, with the last major project at Jervoise Bay, the unions were very active in actually seeking to manage very closely, in order to avoid that type of situation. That was John Holland Constructions module fabrication. One of the things I became very personally involved in on that site at that point was not over industrial relations at the site: to the contrary. It was a group of Filipino seafarers who tied themselves up at the wharf. They were manning the barge that was going to take the work done by Western Australian workers to Singapore for the purpose of completion. They had a particular industrial issue, and the workers at that site supported them over that issue. To my knowledge, that was the only industrial dispute that arose on that site. The job was completed to quality, to time and to price, with minimal occupational health and safety incidents and no disruption other than the one that occurred over that issue—the Filipino seafarers—in the last couple of weeks of the project.

CHAIR—And what about up north?

Mr Ferguson—Up north, as far as the Burrup Peninsula is concerned, we would like to be asked, ‘How did you manage to bring the last stage of the Burrup in, under time and under budget?’ But we never get asked that question. We always get asked, ‘What happened with the Goodwyn, and why was it perceived that there were so many industrial problems on Goodwyn?’

CHAIR—Answer your first question first.

Mr Ferguson—What was the first question?

CHAIR—The first question was about why you do not get asked why it ended up on time. What were the things that you were doing?

Mr Ferguson—In general terms, people seem to focus on the negatives rather than the positives. We have been somewhat critical of Woodside, in that they do not give kudos where kudos should have been given, and it becomes a matter of public perception that the only thing we can do is jobs like Goodwyn and Rankin when they go off the rails: they focus on the negatives.

CHAIR—I think that they focus on the negatives from—

Mr Ferguson—There was an industrial agreement that applied—

CHAIR—That is what I was about to say.

Mr Ferguson—There was an industrial agreement that applied on the last stage of the North West Shelf, and it was an agreement that accommodated both parties. There were some compliance factors in it, and there were staged wage increases, and there was quite an extensive consultative process with the work force and with officials. We were committed to it. The contractors were certainly committed to it, and it worked very well.

CHAIR—There seems to have been a lot of emphasis on the management of the work force. An alternative argument could be that it needs management of the managers, and there is skill training involved

in that. Is there a need for skilling Australian managers into major developments as well?

Mr Ferguson—Most certainly. As far as major developments are concerned, it has been said that, if we had had another project, such as Goodwyn in Jervis Bay, hard on its heels and we had a continuation of that, we could have built another one and it would have been done a lot more quickly and it would have come in under budget a lot more readily than the last ones we have done; and that is just a fact of life.

Mr Cooke—It is the accumulation and retention of skills.

Mr Ferguson—The problem is that you can train them all you like; but, if you do not have the type of project for them to do, what do you do with them? That is the problem. We will lose those skills. We can train them all we like, but we have to have a continuation of work.

CHAIR—The argument being spoken of today is that there are a number of projects that are about to come on board, and there is a sort of confidence about what is going to happen in the future. Most of the witnesses today have said that there is a bit of a potential skills shortage. We have to consider whether or not we can actually get the skills from migration from the eastern states over to Western Australia, and there may be a need to bring people in from outside Australia into the country. Your argument would be that you would support that notion rather than having the work go offshore: would that be what you would be arguing? I understand your first argument would be to use Australian workers—

Mr Ferguson—Train Australian workers to do it. We are saying that the skills are there. There are enough skills here to accommodate what is required at the moment. If there is going to be a skills shortage, if one is to believe the Worley report—and we believe that that is flawed in some areas—then let us train the workers here. That is a simplistic approach. We are certainly not going to advocate that in the first instance, as a knee-jerk reaction, you start bringing workers in from offshore.

Mr Cooke—We have actually had quite a long and, from my point of view, very heated debate with a state government department that had been approached by a body hire agency. They said, ‘There is a skill shortage; let us import 400 workers from South Africa.’ The basis for their allegation of a skill shortage was that they had placed an advertisement in the *West Australian* and no workers had come forward to put their names on their books. That is because there is a bit of work around and in that industry, labour hire. There are a few companies that have got good reputations. Most workers list themselves with one or two on the basis that they have got some coverage of the industry. If they do not like the name of the company or, if it has not got a reputation, they do not bother putting their names forward. But that is hardly a justification for a skill shortage.

We do have a view that there is the capacity to improve levels of skill and one of the things that we desire is the development of some base where we can actually retain and apply the skill that is generated out of one particular project. One of the big difficulties that we have at the moment is that we do not know where the people are who worked on the John Holland job two and a bit years ago. Certainly, they have not been exposed to the state of the art technologies, because there has been no continuity of the work. We have to bear in mind that it is not just the work. It is the technology transfers that take place and the capacity to keep your work force at peak, which is all part of this as well. If we are going to remain truly competitive, it

is going to be a skills equation as well. We have seen a lot of people who have been trained in this sort of environment, whose skills evaporate over the 10 years between projects.

You try to draw them back in; a lot of them are out taxi driving. One of the things that has happened recently is that you have got people who are actually coming back into the industry, doing jobs on the basis that they have been out of the industry for four or five years. There was not much work around. It was casual and it did not give them the income they needed, so they have been out driving taxis or doing other work. Now that is a wasteful use of community resources because each one of these tradespeople has cost our community money to train in the first instance.

CHAIR—And it is not only in this industry that people are doing it.

Mr Cooke—I know.

CHAIR—Skilled workers from a lot of professions are doing it. Traditionally, training up skilled labour has fallen back onto the employer or the company. Is there an argument to have other people responsible for the development of skilled labour, and who should they be? For instance, CCI have got a pool of apprentices—

Mr Ferguson—In conjunction with the AMWU.

CHAIR—Yes. So, is that a model that is only relevant to Western Australia that we should follow?

Mr Ferguson—That model seems to be working at the moment. There are quite a lot of apprentices being placed through that system.

CHAIR—It just seems to me that the emphasis on IR issues has been too economic and not humanistic over the last 15 or so years. That has been brought about because of the emphasis on bottom-line figures and all that sort of thing. So there must be a bit of a rethink about the traditional ways we train our labour.

Mr Ferguson—Did anyone say anything in their submissions or in their evidence about the industrial relations problems in South Korea? They seem to be winning a lot of work for offshore developers. They do not seem to raise that.

CHAIR—Well, give us a bit of an overview about that.

Mr Cooke—You can see it on the front page of the newspaper and in the *West Australian*. If industrial relations is such a determinant of an economy's capacity to attract international work, why is South Korea taking work out of Western Australia and Australia generally? The reality is that there is great turbulence in South Korea. Industrial relations does not seem to be such a priority issue there in terms of getting work. There is a whole range of other determinants of international competitiveness.

CHAIR—I think the emphasis given to us over the last couple of days has not necessarily been on

price, of which labour is a component; it has really been on standards and reliability. I am talking about manufacturing standards which have produced work. I am not talking about standards of IR; I am talking about—

Mr Ferguson—Standard of work.

CHAIR—Standards of work.

Mr Ferguson—You have to look at the standards of work and at some of the work that has been brought in here and done offshore on Rankin and on Goodwyn. Our members who are best placed to make some sort of critical comment have told us about it. If you look at the Goodwyn project, for example, the accommodation modules were constructed at Jervoise Bay and the process modules were constructed in Korea in Hyundai's yard, as I understand it.

If you compare the workmanship—I know that there are two different types of modules—the work that was done in Western Australia was of a far higher standard than the work that was done offshore. The people that are working out there are forever carrying out remedial work on the components that were bought and the work that was done in South Korea. They are forever changing pipes and re-welding things and fixing this and that. Whereas, when the work is done in Australia, everyone says—everyone within the industry that I have spoken to—that the workmanship is second to none and is of a much higher standard than what was coming in from offshore.

CHAIR—So, there must be other problems associated with Australian labour than quality.

Mr Ferguson—There were problems as far as whoever is controlling the tenders.

CHAIR—There is one last question I want to ask you before moving to my colleagues. One of the first points you made was that you wanted to see more government intervention. In what way and how would you see this operating? What impediments are there now that government should be moving in to break down?

Mr Ferguson—We have seen the state government's policy on local content and we believe it is a waste of time. This state government's policy is full of expectation: it expects the developers to do the right thing. As far as we are concerned, it is just Rafferty's rules out there. The developers just go and do what they like without any checks or balances. It does not seem to matter what the—

CHAIR—So, you would rather see a statutory requirement for local content?

Mr Ferguson—Most certainly, yes.

CHAIR—Is there a model of that elsewhere, internationally, that you can point to as a good example?

Mr Ferguson—Not off the top of my head, no. But we say that there should be some regulatory thing in place that at least gives contractors a preference in their bids.

CHAIR—I must say that you are the only ones arguing this way. Everyone else is arguing in the opposite direction for their own personal interest, I guess.

Mr Ferguson—Which is no great surprise.

CHAIR—There is one argument here, and there are 12 arguments over there.

Mr Cooke—If we have the argument about level playing fields and competition, the reality is that with control of infrastructure in other countries which has been accumulated as a part of a deliberate strategy over a long period of time by government itself, you actually have government collaboration buying jobs out of Western Australia. You have situations like the one we heard of this morning where they are prepared to give away the use of the site, valued at \$9 million overall on a \$20 million project. So, one of our competitor nations comes in with an \$11 million bid when we had a \$20 million bid. The difference is the fact that the government was able to manipulate the situation and give away the cost of the site. That is a different approach when it comes to infrastructure and how you apply infrastructure and what incentives you create.

CHAIR—Your organisation puts greater emphasis on which end of a project: the capital works, or the ongoing benefit?

Mr Ferguson—I guess on both. If a project goes offshore—I will use the Wandoo example—where the modules are constructed, or built, in Keppel's yard in Singapore, once that comes in they also supply with them parts lists. These parts lists are obviously for ongoing maintenance, shutdown work, et cetera. You can bet your boots that on that parts list they do not have Jervoise and Bassendean as preferred suppliers. All the parts are going to come from wherever it is that they bought them originally, from South Korea, or wherever. So, on an ongoing basis, it means that that does not assist the manufacturing industry in Western Australia, or in Australia. The majority of the gear will be imported. On an ongoing basis that is a fair whack, a lot of money. That is how wealth should be created, on an ongoing basis. There might be an initial injection. The project might cost \$150 million, \$200 million, or whatever, but if you look at the life of the project over a couple of decades and what has happened to it, it is a huge amount of money.

Mrs JOHNSTON—Can I just ask both of you to clarify a comment that was made earlier. I may have misunderstood you here, but are you suggesting that you would see the potential development of Jervoise Bay as an ongoing retainment for workers in your industry? In other words, that it would give some sort of tenure, or security or long-term employment opportunities for those workers, rather than having them employed for a short time in one project, then going off and becoming taxi drivers, and then we have to retrain them again. Is that what you were suggesting?

Mr Cooke—Essentially, yes. We cannot say that investing in infrastructure at Jervoise Bay will guarantee that work will come into the Australian economy. But we can say that, if it does not happen, it is guaranteed that the work will not come. That is the nature of the problem. What we are trying to develop is a collaboration where we can actually say, at the end of the day, that you can change the culture of the site by creating permanent facilities which offer durable employment and associated technology parks that try and exploit the state of the art technology that comes with the jobs, so that you are actually deepening the initiative. It is not just the work being done; it is the support and maintenance work that Jock has just talked

about, and also adjunct work like development of new technologies and improvements. That gives the capacity for quite sophisticated training and education initiatives associated with the infrastructure development.

It is really a case of overcoming this project based mentality, where you struggle to get a project and there is no prospect of you getting another on any sort of continuing basis, because each time you do get a project you have to put in new infrastructure, a new work force and new management. And when the project is finished, all of it goes to waste in terms of the skills that have been accumulated on that project.

Mr Ferguson—One of the things we have been looking at in recent times is that there has been a recognition that, if we keep going the way that we are going at Jervoise Bay, for example, we will maintain this construction culture. We have learned some lessons from the North Sea and in Europe, where they have permanent facilities to construct and service particularly the offshore industry. We are not saying that Jervoise Bay would only service the offshore industry. We are saying it could service the resource sector as a whole, both offshore and onshore. If we can create some sort of stability, the construction culture would disappear, in our opinion, and it would become more like a large fabrication yard that would be there to supply and support that particular industry.

Mrs JOHNSTON—In terms of government intervention, particularly for local content et cetera, you have mentioned one or two countries. Can you give us a model of a country or countries that you would like to see us copy, that would be of benefit to the nation as a whole and not to individual workers?

Mr Cooke—I do not think you can just adapt any model. That was one of the mistakes that Australia made in the 1980s—going off to Western Europe and not acknowledging the guest worker systems that allowed you to exploit unskilled work forces.

Mrs JOHNSTON—Precisely.

Mr Cooke—So wholesale adoption of international models will not work. For example, I can remember in my primary school years people laughing at Singapore: island state, no natural resources, had to buy its water in from Malaysia. Yet with a determined government attitude, with a deliberate strategy, a determined approach, and a sense of cohesion and shared commitment, you wind up with them being our competitor, with the Keppel shipyard, for a whole range of work. In fact, that is where our work goes for the final, high value end of the process, which is the assembly and ship out.

Mrs JOHNSTON—I am quite sure that likening Singapore and Australia is not something that you would like to advocate very much—

Mr Cooke—No, that is right.

Mrs JOHNSTON—particularly in labour relations laws. So that was not a very good example to use.

Mr Ferguson—If you look at what has happened before, we should be creating our own model. If you look at what happened on the North West Shelf with the NLG, why do not we have a continuation of that, where we have a committee that looks at the work coming up. If there is good reason for the work to go

offshore, then so be it. But if the work can be done here, and done here competitively, then it should be done here. That is what we are saying. There are jobs that have been done in Western Australia where there was no rhyme nor reason, in our opinion, for it to go offshore—where it should have been done here.

Mrs JOHNSTON—We were talking about the North West Shelf then. Woodside stated that government intervention imposed on them when they were doing Goodwyn A cost in the vicinity of \$60 million. In part, they put the blame for that loss on industrial action. What would you say to that?

Mr Ferguson—There is no doubt that some of the loss may have been through industrial problems on the job.

Mrs JOHNSTON—What percentage would you put on it?

Mr Ferguson—I would not like to hazard a guess on what percentage it was. It is the first time I have heard the figure of 60 million for Woodside. We would have to sit down and analyse that figure and have a look—

Mrs JOHNSTON—Have you come up with remedies now to overcome, perhaps, some of that potential for industrial action? Obviously, it takes two sides to have industrial disputes, but in your case—

Mr Ferguson—That is right. There is a number of initiatives that have been put in place. We see that the Jervoise Bay infrastructure and the permanency applied to the site, would certainly go a long way to assisting with that. The lessons learned from the North West Shelf on recent stages through the consultative process and some of the provisions that are in the industrial agreements that apply on the North West Shelf could quite readily apply to places like Jervoise Bay. People keep harking back, and I will say it again, if they keep looking at it from a negative perspective, then that is all we are going to end up with. We are big enough to look at the mistakes that we have made. We will freely admit that, yes, we have made mistakes along the way, as long as some of the developers and contractors would, too.

Mrs JOHNSTON—I am sure. Let us look forward to the future. One of you mentioned that you would like to see greater government intervention. Perhaps, you could explain that a little bit more or, perhaps, give some more detailed input as to where you see that intervention should come from. Also, again, I am not sure whether I misunderstood you here, but I thought somebody said that you would like to see, or you would like to be more directly involved in the investment of the infrastructure. I take it that, from a union's point of view, that is not in capital but it is in, perhaps, policy advice, or something like that. Is that so?

Mr Cooke—No, not necessarily. In terms of some practical ideas—and this was not mine; I would attribute it to Dr Ken Clements, who is an academic from the University of Western Australia. He has done extensive research work for the mining sector over the economic impact and the employment impact of resource development. In a television program he was proposing that he agreed with the proposition that we were not, as a country, exploiting our advantage. And the best way of doing that might be proposals like setting aside a committed amount of windfall royalty gains out of the resources sector for the purpose of infrastructure development so that you actually make an economic decision. That infers the government as an

investor. Whether the government continues to own that infrastructure or not, is another question. It is not necessary that that be the case.

But in other countries where that has been the case, government is currently buying work out of this country. They can actually just say, 'We are prepared to throw in the costs of the site—power, anything else, all those of infrastructure provisions—to make our bid particularly competitive against the local bid. Australian companies are learning from that experience. We now get situations where Australian companies are going and locating in those economies and putting in a domestic and an overseas bid, with a view to gaining from the policies of other governments in terms of that targeted support with infrastructure. That is what we are talking about. It is a very uncompetitive environment, but we cannot blame them for the fact that they are exploiting the opportunity. We cannot blame them for it because they see the opportunity there and they are taking it. We are not saying it needs to be publicly owned.

Mrs JOHNSTON—Mr Ferguson, do you want to add to that? I can see conflict happening here.

Mr Ferguson—No. There will not be any conflict. I agree with my comrade and the comments he has made. As far as government intervention is concerned, in our submission we put a provision that to maximise local content there should be—

Mrs JOHNSTON—This is in your recent submission—which I have not read yet.

Mr Ferguson—Yes. That there should be some provisions inserted in there—if you look at page 5, policies and mechanisms for increased local content—

Mrs JOHNSTON—Yes. I have got that.

Mr Ferguson—It does indeed say:

The AMWU and the TLC encourage greater intervention, when required, by Governments in major resource projects. We believe that projects the size of the North West Shelf should not be left solely in the hands of developers for material gains, but should be for the benefit of the majority of Australian people. Furthermore the AMWU and the TLC believe that provisions maximising local content are to be inserted into development agreements between the Government and the Developer.

Then it goes on into details and what sort of terms that these agreements should be entered into. We believe that that would certainly assist in maximising local content and give people an opportunity to discuss it, instead of leaving it to the developer to decide what level of local content there is going to be. It should be up to the developer, the government and the unions.

Ms GAMBARO—Mr Cooke, to go back to the question of skilled labour shortages, you mentioned that employees put their names down with two companies and that they are loath to work with companies that have a bad name. Can you expand on that, please?

Mr Cooke—No, this was body hire—labour hire—agencies. Some of these companies have very good relationships with the union movement. I do not want to cast a negative connotation on them. But there is a

field full of them, and I have been alerted to one recently, as a result of a phone call, and have sent the details out to affiliates.

What you have is a situation where workers in a particular industry come to know that one or two labour hire organisations specialise in their industry. That is where they want to work, those are their skills, and they put their names down with those two. A new entrant to the field, a potential competitor with the other two existing companies, puts an ad in the paper saying, 'We are seeking skilled labour. Put your name down with us.' There is no guarantee of work. All the company then does is go looking for contracts, hires out the labour and takes on the responsibility of allocating the labour to the particular job. The difficulty you have in all of this is the cream that comes off the top.

If you want to hear about a personal experience, I can tell you point blank about what happened to my brother. He was severely injured on the Burrup and it was only when he put in his workers compensation claim that he found that his labour hire outfit was owned by the company that held the piping contract. What was happening was that the contractor was telling Woodside, 'It is okay. We will use a body hire agency, but it will cost a bit more for the labour.' Their wholly owned subsidiary was getting the labour, adding book price, MPES was passing that on to the principal and finding themselves in a position where they basically compounded their profit because they were adding margins for the hire of labour instead of hiring it directly. You get actual cross-ownership arrangements in some of these labour hire outfits. For example, the one I referred to that I just heard of last week is partially owned by Transfield.

Mrs JOHNSTON—So they have actually set up their own recruitment agency?

Mr Cooke—They basically set up their own recruitment agency. But, in the contracting environment where you can have an ants' nest in a major resource project, you can have hundreds of contracting companies on site at any one time doing very small components of the work, all using body hire, and you wind up in a situation where it is all effectively cost-plus contracting. In that instance, incidentally, it was discovered and the contract was cancelled—to the credit of the principal; they were trying to maintain cost control. But that is the sort of conduct from an employer point of view that comes out of this construction culture as well—where you make hay while the sun shines.

Mr Ferguson—I must add that that particular company went out of business after that contract.

Ms GAMBARO—I understand that that goes on, but what about labour shortages?

Mr Cooke—What actually happened was that that company had put an ad in just trying to compete with other labour hire agencies. The fact that workers did not come flocking in the door saying, 'Thank you, thank you, put my name down,' was quite probably an indication that the workers they were seeking were already listed with other labour hire agencies and did not see the need to list themselves with another. This was a relatively new entrant to the field who was not known to specialise in that industry, so why go with an unknown quantity when there was a tried and tested product in the form of established body hire agencies?

Ms GAMBARO—I understand that. So what do you propose the new company does?

Mr Cooke—The new company goes out of business, because there is no market for a new body hire agency in the industries in which it wants to operate. It was a bad marketing decision by that company. They do not add value; they do not do anything. They do not augment the skill of the workers that they gain. Some of the better labour hire agencies actually do have skill enhancement programs, but most of them are just basically offshoring the actual direct hiring of labour, so they do not add value to the production process.

What they were wanting was the opportunity to create an artificial economy, a false economy, by importing South African labour in the skill categories concerned. Obviously, that has an effect in terms of the market value for the skills of the people we represent, but the long term, it presents a whole range of economic problems in terms of jobs foregone, particularly where there is the opportunity to upgrade the skills of our existing people with a view to plugging them in to available jobs.

Ms GAMBARO—CCI have mentioned that there was a lack of skilled labour and they spoke to us about their need to recruit people temporarily from overseas. I would like your views on that; I know that you have given me some of them.

Mr Ferguson—It does not surprise us that they would adopt that position. But what do they base those statistics on? I mean, do they base them on things like the Worley report? Some of the reports, or studies that have been done, and some of the figures that they have come up with are based on the premise that all the work that is coming up the track will be done in Australia, or in Western Australia.

I will use Wandoo as an example. If you look at the Wandoo job, that was part of their statistics. They said that that was going to soak up 250 or 300 tradespersons, or whatever, and that the work was not done here. That has not been discounted, as far as what is available out there as a pool of labour. All these other jobs that are going offshore are in the same position. The opinion is based on all these projects that are being done at the moment in Western Australia.

Mr Cooke—The assumption is that the work would be done in Western Australia. That would—

Mrs JOHNSTON—And that none of it would go offshore. How much work and support has DEETYA been to you in training and skills?

Mr Cooke—DEETYA has certainly been quite responsive in Western Australia—in recent times, too, I might say, despite the pressures they are under internally with the whole range of issues they confront. They have got a reasonably good reputation. Certainly, for the discussions I have had with the CCI, the relationship is good in terms of responding to needs. There is always the resource question involved. We do not necessarily say that it is primarily the role of government to get involved in the training of workers. It really is a matter for collaboration, the identification of what is required, and the available skills. Some very good work was done during the second stage of the Burrup in identifying the requirements in advance and trying to upgrade skills and track people back in and augment their existing skills to qualify them for the work that needed to be done—skilled welders and a range of other things. And that is really the experience that lies behind the AMWCCI skill centre down in Kwinana.

Ms GAMBARO—You said that a lot of their skilled workers—because projects are long and far

between—go into cab driving and other areas. Do you see any merit in having some sort of accreditation system where—similar to other professional groups—they need to keep their certificate up to date, or have ongoing yearly refresher training? Has that been tried?

Mr Ferguson—That happens anyway with certain classifications, such as welders. Welders have got to keep their codes up and keep up their qualifications, otherwise they will find it difficult. In fact, they will not get a job if they do not pass the test.

Ms GAMBARO—How do you track these people? Is it difficult? We were talking about labour shortages, but if we have welders, say, are they easy to track and re-train?

Mr Cooke—They are hard to track. I mean, it is the market value. They have to get a clear impression. It is a sort of feature of the boom or bust mentality. They have to get a very clear signal from the economy that it is worth coming out of whatever they are doing, putting themselves through any preliminary process and the burden of getting their skills recognised, or whatever. They have got to get a clear impression that they have got work that makes it worth their while. You get a very long lag time and, basically, they take the initiative and come into the industry. It is then that you have to try and pick them up. So, tracking them is very difficult because we do not, as in Singapore, have a quasi military approach to industrial relations where unions are effectively an arm of government.

Mr Ferguson—But there does not seem to be any great shortage at the moment of welders, for example?

Ms GAMBARO—So, things are fine at the moment?

Mr Ferguson—There might be a shortage of taxi drivers when these projects start, but they can attract welders.

Ms GAMBARO—I would just like your view on the effectiveness of the oil and gas consultative group and any personal insights that you can give the committee as to the approach—

Mr Cooke—I think that is the answer.

CHAIR—Let me just summarise briefly what you want. Some recommendations from this committee would be that you are strongly favouring government intervention on the projects to see that there is a local content component. And, primarily, that should be statutory, rather than by policy.

Mr Ferguson—Yes, that is right. Our preference is for the developers to do the right thing. Through experience, we do not believe that they have done or that they will do. They have not given us any comfort. Therefore, because of their apparent lack of commitment, that would be the next step—that there would have to be some sort of regulation.

CHAIR—To be able to facilitate that, am I assuming too much to suggest that your movement and your union would support some flexibility in your own negotiation to ensure that that local content is

possible?

Mr Ferguson—Which negotiation?

CHAIR—I am just talking about project awards, or whatever it might be. If, say, it meant giving up a meal allowance to get that—that is a simplistic approach to the problem.

Mr Ferguson—It is. In this age of enterprise bargaining, we will have a look at anything; everything is on the table so far as negotiation is concerned. These things are not hard and fast, as far as we are concerned, and developers and contractors alike know that. We have a number of agreements that are quite unique, that address the requirements of the contractors on particular jobs. There is a basic set of principles that we find it very difficult to deviate from, but we are very flexible when it comes to a large range of issues.

CHAIR—You are ensuring we get the work here?

Mr Ferguson—Yes.

CHAIR—The last question I have is about Jervoise Bay. Am I correct in assuming—and please correct me if I am not—that you would favour changing the category from construction to manufacturing?

Mr Cooke—Fabrication to manufacturing.

Mr Ferguson—Let me put it this way: we are in favour of a permanent facility at Jervoise Bay that would accommodate a change in culture. It would be a change away from the ‘bash and bust’ mentality—let’s get on the job and bash it for as much as we can. We believe that an agreement for that particular area, an enterprise agreement—and we can call it a fabrication site agreement, if you will—would accommodate what is required.

CHAIR—Is there any closing statement you would like to make?

Mr Cooke—Just on the question of statutory versus policy, there is a lot of ground in between. We have problems because the unions, when they try, do so on the basis—and there is the example of the John Holland site which Jock himself put a lot of effort into—of cooling it off, because the traditional culture of the members was: there is a construction job, let’s have a go. It was managed well by the unions, but only with pain from the unions. The pain was largely on the basis of the promise that, if there was reasonable performance on that job, it would increase our prospects for the next one and give some security of employment.

No comfort has been drawn from the behaviour of the developer since then, or prior to then, so there was some risk for the unions in exposing themselves to their own members in trying to accommodate the needs of companies on spec that there would be a positive outcome. It has not been delivered, hence the reaction—that is, that we need more comfort than we will get by platitudes and promises, and that some sort of regulatory approach is best.

There are things in between which are collaborative policies between federal and state governments. For example, I took the issues to the premier last week and said, 'We are going to be raising these issues. We want you to know that we are not going to make the case for the state government, because we believe that you have a major contribution to make.' There are issues such as the fact that the Western Australia state government, under the existing North West Shelf agreement, does quite nicely out of the royalties; the agreement is relatively generous. I cited that to the premier. His reaction was to say, 'Yes, but the big clawback comes in the Grants Commission area, because we get offsets and discounts for our perceived windfall royalty income.' So there is a lot of room between state and federal governments for a focused policy that is a compromise between respective needs.

Incidentally, I want to emphasize that we are not just talking oil and gas. Regrettably, I would have to say, in Western Australia oil and gas is dominated by corporations that have absolutely no loyalty whatsoever to Australia as a nation or to its work force or community. They have more interest in striking today's deal based on their next development off the coast of Africa, and the decisions are made in boardrooms in the Netherlands. That is the problem we have. We are actually looking, not just at oil and gas—there is potential there—but at the onshore resources development sector, as well. It is very important.

CHAIR—So, it would concern you that budgets of exploration are increasing offshore, rather than in Australia right now.

Mr Cooke—That is right.

CHAIR—Okay.

Mr Ferguson—Just in closing, I would like to say that we have come a long way in the past couple of years anyway, as far as this state government is concerned, and with the contractors through the Jervoise Bay liaison group, an initiative by the present state government, dare I say. But nevertheless, you have to give honour where honour is due, and that has facilitated a greater understanding among contractors, unions and the state government.

We have not had any sort of major contract down there since that process has been taking place, but I think that understanding should be put to the test. People will be pleasantly surprised at the relationships that have been formed between the contractors and unions, and the state government, and the developers have got to understand that. I think that for them not to bring in work to Western Australia, by hanging their hat on the industrial relations problem—with all due respect to the developers—is a matter of them not been involved in any discussions that have taken place over the past couple of years. The people who actually do the work have, and I think that they should take a close look at that.

CHAIR—Thank you for your submission and for coming to see us today.

Resolved (on motion by Mrs Johnston, seconded by Ms Gambaro):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 4.42 p.m.