



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON INDUSTRY, SCIENCE AND TECHNOLOGY

Reference: Australian industry participation in major infrastructure projects

CANBERRA

Monday, 3 March 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 Reid (Chair)

Mr Forrest

Mr Allan Morris

Ms Gambaro

Mr O'Connor

Mr Jenkins

Mr Zammit

Mrs Johnston

The committee met at 9.15 a.m.

Mr Reid took the chair.

CHAIR—I welcome witnesses and observers to this second 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. In January the committee inspected Woodside's facilities at Karrawatha and the North Rankin gas platform. At its public hearings in Perth the committee heard evidence from relevant Western Australian government departments, unions and Woodside and other Perth-based organisations.

Today, the committee will take evidence from the Heavy Engineering Manufacturers Association, the Australian International Projects Group, the Australian Petroleum Production and Exploration Association, the Institute of Engineers Australia, the Australian Electrical and Electronic Manufacturers Association Limited, ISONET, the Department of Primary Industries and Energy and also the Department of Industry, Science and Tourism.

Committee proceedings are recognised as proceedings of the parliament and warrant the same respect as 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 or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of parliament.

The committee prefers 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.

DOWE, Mr Richard Fyfe, Executive Director, Heavy Engineering Manufacturers Association and the Australian International Projects Group, 16 National Circuit, Barton, Australian Capital Territory

CHAIR—Thank you very much for your attendance this morning. Would you like to make an opening statement before we commence questioning?

Mr Dowe—Yes. At the outset I would say that HEMA treats this topic of Australian industry involvement in major projects very seriously and we consider it to be exceptionally important. For this reason and prior to that, I was involved on the national liaison group on the North West Shelf which commenced back in about 1984. HEMA made a presentation to the Beddall committee inquiry into the North West Shelf, the second phase in 1989, and now we have made two submissions; firstly to the reference which was sent to the House of Representatives in 1995 by Peter Cook and secondly to the revised terms of reference that came from the new government.

HEMA sees Australian industry participation in major projects as a cost effective way of increasing employment and jobs in this country, as well as growing new technologically advanced sustainable industries. We believe—and we have always proposed—that there should be a national policy of Australian industry involvement in major projects. In fact, we were instrumental in working on such a policy back in 1990, after the Beddall committee report was made and the question of Australian industry involvement was referred to the industry ministers meeting. It was chaired by the federal minister for industry, Senator Button, and had the other ministers from all the other states and territories on it. After deliberations and the whole question was referred to a working party, the committee did adopt a national policy of Australian industry involvement in major projects.

We endorsed that policy because it did actually involve a compromise position between ourselves and the Australian Petroleum Production and Exploration Association. Unfortunately, the problem we see is that with that policy in place, it has never worked. It has never worked for the simple reason that it has never been monitored. It does exist. People are aware of it and I must lay the blame for that entirely at the feet of the Department of Primary Industries and Energy. It is sad that, at that particular time when we were examining the policy, the department found it almost impossible to consider any form of monitoring of developments in the oil and gas industry, particularly offshore, and there has been no serious attempt to do otherwise. To have an effective policy which encourages Australian industry participation in major projects, there must be a complete attitudinal change in many areas. That is evidenced when you see the way now that the various departments and the government itself stands away from any question of industry participation.

Going back to the Beddall committee, the report itself was thoroughly supported by HEMA, particularly the more philosophical line that any developer of Australia's national resources should be obliged in a way to develop industries in Australia. It takes more than just taxes and royalties payments. There should be almost an obligation that, if they are taking non-renewable resources, the companies concerned should endeavour to work with Australian industry so that Australian industry gets rub-offs from its own resources and there is a capacity and a capability in this country left that can carry on with further developments. Some of the lines that are put forward by developers are that it is spasmodic; that developments are few and far between; and to encourage Australian industry to build up to try and meet demand for the major projects would only be a cruel thing as far as Australia is concerned because when that project was finished

everything would have to be disbanded.

I believe that that really is the responsibility of the companies concerned. If they are involved at an early enough stage in developments and are willing to work—and the other side is that the developers are honestly willing to work with Australian companies—then we can develop new industries and we can develop the expertise and knowledge which would be required to carry us through further developments. Let us face it, that might have been in 1984 and might have been valid today with the development of the North West Shelf which I guess is probably larger than the North Sea reserves. It would be the largest offshore oil and gas province in the world, because it has hardly been scratched. This should be an area where we, as Australians, look at what is involved and the government requests—and it must be a government request—that the developers work with Australian industry. They claim they do. They will present you with massive amounts of tables showing enormous local content. That has to be looked at, because these are figures that are provided by the developers. They are not checked or substantiated by other parties.

I think I have covered most of the areas. One concern is the reference itself and the fact that with the reference sent in 1995, we considered it to be an all-embracing, excellent reference that would have examined cases where there was success and those cases where there were failures in Australian industry participation in major projects. Of course, one of the major areas is in defence.

Defence is entirely different because it is public money that is being spent and stipulations and rules can be laid down. Levels of content can be laid down and can be examined. That is not the case in private projects, and nor should it ever be. But it would have been nice to have had a look at the spin-offs that have taken place from both the submarine and the ANZAC ship projects. They are substantial and have never really properly been aired. It would have been an excellent chance to air those spin-offs that do and have occurred and, following from that, to air the further spin-offs down the line as more and more products and services are developed to feed back into that particular area.

We were concerned, therefore, when the second set of terms of reference came forward which, in a way, cut everything out of the original 1995 reference. There was an attempt to concentrate or focus on infrastructure only. The focus was away from mining, away from oil and gas, and away from mineral processing. Infrastructure alone was mentioned. Originally, the 1995 reference was to cover all mining and oil and gas products and infrastructure. Now we suddenly find it is concentrated back onto the North West Shelf.

So, we are re-examining and re-examining. If that is the case, I would sincerely hope that you have revisited the evidence from the Beddall committee and seen the logic that flowed from that bipartisan report and the recommendations that came out of it. Some of them, I will admit, may have been unworkable in that they were very prescriptive but, basically, the aim of the report and the philosophical base, which I mentioned earlier, was that there is more to it than just oil and gas, royalties and taxes.

In a way, also, it is disappointing in that the number of witnesses that were lined up to appear have either withdrawn or believe that this inquiry has been emasculated to some degree, because of that change, and have withdrawn. I find that sad but I suppose it is a sign of the times. I do not know. I am disappointed very much by the revised terms of reference which, as you know, took nine months to re-activate out of the government when it was elected.

I have covered everything, basically. The only other point I would make is that we are concerned in that we wish to see our own national resources developed in such a way that it does incorporate new industries, growth industries, areas for new jobs, new employment in this country. And it is not only the manufacturing industry, it goes further, it goes into the design, engineering and construction industries as well. Thank you.

CHAIR—Thank you very much. One of the important things that came out in your evidence to the committee was the performance of the industry, science and technology department and the primary industries and energy department and your comment that their performance has not improved since the original committee's recommendations on their attitude and their approach to local content. Do you have any further suggestions on strategies that could be implemented to monitor the level of local content?

Mr Dowe—Yes. Really, it is a very difficult issue for government to face and that issue is that, basically, no departments work with each other. If there is cross-referencing, it is minimal. The Department of Primary Industries and Energy is not concerned with industry policy. It never has been. In one case, I can remember one minister saying to me, 'But our whole interest stops at the factory gate.'

It is a dilemma for government because it is going to act on all business assistance programs. This is one of the big problems that David Mortimer is going to have. When he talks about an all-of-government approach, he is talking about a resources department and an industry department. You now have the Department of Foreign Affairs and Trade writing a trade policy which basically does not recognise or work in with an industry policy.

Employment policies are trying to be manipulated to fit in with some form of industry development policy at present. But it basically operates in isolation. An enormous problem for government is how to actually mesh various policies into one overall economic policy—one vision, if you like—that must be all-encompassing. The compartmentalisation of various interests is so strong that you find the situation stumbling and not working.

In this case, if there is an industry development policy employing people and growing new industries, and mining or oil and gas development is taking place which is only marginally feeding back into industry development and a department says, 'Industry development has nothing to do with us. All we are here to do is to look at the development of oil and gas in Australia,' that is a major problem. It is a big stumbling block. It was put forward to the Beddall committee, which was quite critical of the whole situation, but nothing has happened. In fact, the whole Beddall committee report—as Allan would know—disappeared off the table pretty quickly.

Mr O'CONNOR—It is an industry policy issue. We agree with that and there is a problem coordinating departmental views and changing attitudes to this situation. We concede that. What resources, in your view, would it take to provide the monitoring mechanism that might focus yet again on this industry policy issue?

Mr Dowe—I do not think it would take very much at all, to tell you the truth.

Mr O'CONNOR—You cited a WA government example.

Mr Dowe—We have our own chapter of HEMA in Western Australia and we work very solidly with the government over there to formulate local industry participation policy. The original draft was quite a deal larger than what came out in the local content policy. At one stage there were two people, now there are three, in the department monitoring developments.

An application—or a production licence, but not so much because that is offshore and Commonwealth jurisdiction—is made to develop a project. A classic example is the BHP-DRI project at Port Hedland. The three BHP people discuss their plans with the department and the department then talks with the industrial supplies office, which is very active in Western Australia. The two of them basically work together. There are only two people in the industrial supplies office, so that is five people all up. They work through exactly what is wanted. They make known to BHP, because it is on Western Australian land, that this is the local content policy and this is what is expected of them. That is all. It is as simple as that.

They say, 'We expect you—and we would like you—to tell us how you are going about this, how you are working, who you are employing, what you cannot get here and give us a reason why you are not sourcing it in Western Australia.' This leads into something else with Western Australia on Jervoise Bay. Then they ask them for regular reports on how they are proceeding. I will say to you straight out: the companies concerned do this as a matter of course. They have their own flow charts, they have their own progress reports. They must have them so for their own internal controls. Every company does this and it is not hard. It is just a matter of policy, of having the government say to them, 'You must tell us.' There are three people.

Mr O'CONNOR—So the resources devoted to monitoring are not substantial. Would this monitoring that takes place in WA be effective in achieving what you desire?

Mr Dowe—Maybe so, maybe not. There is always a reason why things cannot be done.

Mr O'CONNOR—Which way do you want me to jump on that, Mr Dowe?

Mr Dowe—There is always a reason why things cannot be done.

Mr O'CONNOR—Yes.

Mr Dowe—If it cannot be done, it is never done. People can always produce reasons why it cannot be done.

Mr O'CONNOR—But, in your judgment, given the resources that are devoted in WA to monitoring, has it been effective overall in achieving the desired outcomes that your association would want?

Mr Dowe—Yes.

Mr O'CONNOR—Are we in the positive zone here or the negative zone?

Mr Dowe—What I am coming at is that, without that monitoring, without those resources put to that, the result would be different, in that everyone would do exactly as they please, which they basically do in lots of areas now. That way is often not quite what Australia would want.

Mr O'CONNOR—Can I ask your assessment of the industrial supplies office as an agent for achieving this greater local content in these large projects?

Mr Dowe—Again, I believe it has been successful because it is something that, at least, is attempting to address the whole essence of the problem. In doing so, it must be seen to have increased Australian content.

Mr ALLAN MORRIS—There has been some substantial frustration at the fact that they do it onshore, but they cannot get it done offshore. Offshore is not theirs. What they were really asking, amongst other things, was to try and get the Commonwealth and the state to develop a joint approach. The resources would not even be much greater because they would work together in a cooperative venture on that. With your experience of Commonwealth-state cooperation, is it a realistic option that the Commonwealth and state departments could act jointly in a cooperative way in that kind of policy enforcement?

Mr Dowe—Yes, if they were directed to do so, but they have to be directed to do so. As I said earlier, there is a national policy. It was accepted by all state, federal and territory ministers. The problem is that in one way anything onshore is the province of the state government itself. I see recently the Northern Territory government is now questioning developments in the oil and gas area and putting forward to developers up there that they should be working with domestic industry. They want to build their domestic industry in the Northern Territory.

The federal government has the sole rights offshore. In a way, the federal government's responsibility covers the offshore North West Shelf.

Mr ALLAN MORRIS—Yes, that is right.

Mr Dowe—I believe that there should be adherence to the existing policy, which has never worked, due to a direction from the government that it should work. There is no reason to believe that you cannot then work in with the Western Australia government and their local content area to also cover offshore oil and gas. There is no reason why it should not. At present there is no policy for offshore so everyone does what they feel like. They do it willy-nilly. They drill holes, take oil. You do not even know what oil is being taken. They tell you how much they have taken, but no-one polices it. It is wrong.

Mr O'CONNOR—Mr Dowe, you talk about attitudinal changes in the public sector and departments with regard to this issue. What about the private sector? We have received evidence that there is a reluctance on the part of Australian companies to form the necessary alliances, both domestically or internationally, to achieve the sorts of technology transfer skills and the Australian industry participation in the projects that you are arguing for. What is your view on that issue?

Mr Dowe—Alliances are, I suppose, good things provided they involve Australian industry. There was an enormous outcry when Australians were not given the ability to bid on the top sites for Wandoo.

They built the concrete structure but not the top sites. I will admit Australians are not good at teaming; they are not good at working together. But there is no reason why Australians would not work with developers for that technology transfer. I do not think it has come forward all that much. If it has, I have no evidence of 'it.

Mr O'CONNOR—What is your view of the industry associations—your own and others that you know about—with regard to encouraging Australian companies to adopt this strategy?

Mr Dowe—We have and we do it all the time; but we also need an attitudinal change from the developers. The line is: do they want us? They have to really want to support us. It is a commercial aspect. To tell you the honest truth, I do not know why they do not do it or even if it has not happened. I do not know if there have been cases you could latch on to where someone has been approached and has refused.

Mr ZAMMIT—I need to come to grips with the problem, Mr Dowe. Woodside have told the committee that over 85 per cent of the contracts awarded have gone to Australian suppliers, where they had the appropriate expertise to qualify to bid. Do you dispute those figures?

Mr Dowe—This is a very touchy area for Woodside and it always has been. There was a report commissioned by the Heavy Engineering Board from a company called Wholohan Grill & Associates. They came forward on the Goodwyn platform and said that the local content was not 85 per cent, it was 62 per cent. This caused enormous consternation and much acrimonious debate took place after that. The figures that you are given are given to you by the developer. There is no substantiated side to that.

Mr ALLAN MORRIS—They are the prime contracts, not the secondary contracts?

Mr Dowe—They are the prime contractors. But, on top of that, they are figures that are handed to you. I can say to you myself, 'Local content was 52 per cent.' You will say, 'But Woodside said that it was 85.' And I say, 'I think it's 52.'

Mr ALLAN MORRIS—But both are true.

Mr Dowe—Both are true.

Mr ALLAN MORRIS—An Australian company gets the prime contract and it then sources, as an essential part of its input, from overseas. But Woodside say, 'We do not know that and, therefore, we do not know that figure.' Both are correct.

Mr Dowe—Both are correct.

Mr ALLAN MORRIS—It is just semantics. It is a game playing of what you mean by Australian content. It says Australian companies have got the contract but it does not say Australian products.

Mr Dowe—That is correct. Once you have an ACN you are basically an Australian company. So even if you had one employee and you imported \$100 million worth of equipment, which was then on-sourced to the prime contractor, that would be local content.

Mr ALLAN MORRIS—Mr Dowe was a witness at the inquiry previously and, I think expressed, his frustration then. I am sure he shares our frustration at being told that 35 per cent of the floating platforms are new technology. On the new technology, it seems that the Australian content being let in Australia on Wanaea, Cossack and Pioneer is actually 35 per cent. That is very frustrating. And, of course, one deal went to Keppel without tender.

Mr Dowe—That is right.

Mr ALLAN MORRIS—From all your years of experience and negotiating with ministers of both persuasions, and with departments and governments of all persuasions, you obviously share our frustration, saying that governments could do it. The Western Australian government, to its credit, is doing it and quite assiduously. I think their evidence was impressive in that context. If we were to try to persuade a minister or a government, what would be the key? We have failed so far to do that. We can just do a re-run and say the same things again. It is all self-evident. The Department of Primary Industries and Energy do their own thing, transport do their own thing and Treasury do their own thing; they are all getting their own little angles. But we have failed to find the words to persuade the government that this really is a major national problem. Can you give us some new words?

Mr Dowe—I had a discussion with an Italian in a trade mission out here one time; we were talking about the same aspect. His line to me was, ‘If you don’t look after your own children, don’t expect anyone else to.’ In other words, if we do not look after our own interests, create our own jobs, develop our own industries around our own national resources—because, let’s face it, we have a plethora of natural national resources and not many people—and look after ourselves, and if we export our jobs, we are failing. You are failing your electorates and we are failing our own people. We have to direct our energies to our own development, not to the development of a fabrication yard in the Philippines.

Mrs JOHNSTON—But at what cost to the electorate? This is their commercial decision.

Mr Dowe—I think if you get into cost-benefits and so forth you will always be thrown up the old hairy chestnuts who say we are uncompetitive, we are too costly, it cannot be done, the quality is no good or our safety record is bad. There are 400 reasons why things cannot be done: their eyes are blue instead of brown; things like that come out of it all. If you are not on the bid list for a major project then you are not there. There could be any reason for it. I do not believe that there is a major cost overrun. You will find cost overruns thrown at you; the classic is the Goodwyn platform.

Mr ALLAN MORRIS—With regard to the Goodwyn platform, Woodside pointed out to us that the cost of the Australian project was overrun by \$46 million. They also say in their submission that both Korea and Singapore, or Bataan Island, were also late. They do not quantify what it cost.

Mr Dowe—No.

Mr ALLAN MORRIS—Do you have any idea what the cost of those two projects was? They were much bigger than the Australian ones. We have actually asked Woodside for a figure but they were very

vague about it. In the industry, is there any indication as to what the actual cost was? It is interesting that they quantify the Australian costs to the dollar and do not even vaguely mention the two offshore ones.

Mr Dowe—I do not. There was a situation, however, with the Korean modules that came down. I do not know about the \$46 million; that is something that is always thrown back at you. There are a number of things that go with that. The \$46 million was an overrun because of problems on the site at Jervoise Bay. I could talk to you for hours on this. The problems at Jervoise Bay basically centred around the fact that Woodside and the joint venture partners were at loggerheads the whole time. Goods were rejected out of hand because they did not have sufficient paperwork with them. They were sent away. There were delays. It was a bad site for a while but that was fixed up when there was a conscious effort made to do so. At that particular stage they were flying Korean fabricators down to show them the quality and how various welding tasks were performed in Australia before goods were being sent back to Korea. The Korean modules were over price.

Mr ALLAN MORRIS—They had some quality problems?

Mr Dowe—I do not know but I know the Korean modules were floated down here. They were tied up in Fremantle where one particular company, a member of ours in the west, worked on them. I do not know how many men worked on them because they hung tarpaulins down all round them. They worked on them for two months to rectify the poor quality. I do not know what the cost was. That company would definitely not tell you what its outlays were—you have to realise what this industry is all about. On top of that, in Bataan, as you know, a crane fell on the jacket.

Mr ALLAN MORRIS—It fell over?

Mr Dowe—I do not know but it is all very easy to slam Australia and forget the rest.

Mr ALLAN MORRIS—I have a final question. Mr Dowe may wish to follow through on this one because it goes to the question of follow-on work. What has been put to us over time has been that it is not just the initial work but that the maintenance and ongoing work on these projects is often greater than the original work, or equivalent to it, over the life of the project, and that if the work is done offshore we do not develop the skills and we therefore are less able to do the maintenance.

Are you aware of any attempt to quantify, or could you perhaps subsequently see if

there is any material available, what that cost might be? As I said, because an overseas company has done the original work then often the equipment used and the pumps used and the motors used and the all the other things that are used are things that are not normally necessarily available in Australia. So the ongoing cost of that through-life maintenance is itself a factor that is predicated by that original decision. I do not necessarily require the details now but it is something that you might be able to—

CHAIR—You might like to take that question on notice.

Mr Dowe—Yes, I will take that on notice. It is very difficult to formulate that. Obviously, the maintenance contracts and ongoing work in that area are substantial. However, we have missed out in the initial stages of doing the work itself which is done overseas. It happens not only in the oil and gas industry,

it happens right across the board. There is quite often nothing worse than having an Australian called out to fix something in the middle of the night which was made in Taiwan.

CHAIR—Perhaps you might like to make a further response back to the committee on that. Would you be agreeable to go into a bit more detail on that?

Mr Dowe—Yes.

CHAIR—Thank you for your attendance this morning and for answering the questions so cooperatively, and also for your cooperation earlier in the inquiry.

[9.52 a.m.]

JONES, Mr Barry, Executive Director, Australian Petroleum Production and Exploration Association Limited, GPO Box 2201, Canberra City, Australian Capital Territory 2601

McKEON, Mr Frank, Member, APPEA tariff committee, Australian Petroleum Production and Exploration Association Limited, GPO Box 2201, Canberra City, Australian Capital Territory 2601

MULLEN, Mr Noel, Assistant Director, Commercial, Australian Petroleum Production and Exploration Association Limited, GPO Box 2201, Canberra City, Australian Capital Territory 2601

CHAIR—Welcome. Committee proceedings are recognised as 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 a contempt of parliament.

The committee prefers 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. Mr Jones, would you care to make an opening statement before we commence questions?

Mr Jones—Thank you, Mr Chairman. APPEA welcomes the opportunity provided by the committee to comment on local industry participation in major projects in Australia. We note the more general focus of this inquiry is on major projects. APPEA endorses the view that it is important that we identify impediments that may be restricting local industry participation in all facets of all projects in Australia and address these issues accordingly.

In the context of current discussions I would like to briefly mention the factors that confront resource developers in Australia. Without recognising and addressing this element of the equation, the question of local industry participation will, unfortunately, become largely academic. From the Australian petroleum industry's perspective, we are faced with many issues that influence our day-to-day investment decisions.

These factors include prospectivity, resource access issues, market opportunities, risk reward factors, capital availability, taxation and the international competition for investment funds. After all, we are operating in a global industry. In assessing any single opportunity, all of the above factors will be relevant to varying degrees.

As the committee might be aware, APPEA appeared before the Senate Economics Legislation Committee on Friday to discuss the question of diesel fuel rebate eligibility for petroleum activities. This is an interesting example of the other factors that come to hand in looking at our competition or at our competitive situation. On one hand, today we are here focusing on Australian industry participation in major projects. On the other hand, last Friday we found ourselves in the ironical situation of facing a policy that was going to add substantially to our costs and reduce our international competitiveness. The irony of the situation is not lost on us.

The continuation of the current trend of shifting risk to industry through higher costs will ultimately come at a price. This will be reflected in reduced exploration and production activity which, in itself, will have a significant impact on local industry opportunities. It is also important that we do not forget that the development of the nation's resource bases provides benefits at many levels, not just at the construction and development stage.

From the petroleum industry's perspectives, these benefits range from very large macro-economic and taxation contributions through to the creation of a massive service sector that supports both development and operational activities. APPEA has a long and strong commitment to the view that Australian industry should be provided with every opportunity to participate in resource development projects. It is important, however, that we do recognise that the nature and complexity of the petroleum industry makes it difficult to expect that Australian industry will be capable of meeting all aspects of major project development and construction requirements. That is simply a factor of technical and economic life. Nonetheless, it is important that we identify what impediments may be limiting Australian industry involvement in supplying those things that Australia has the capability to supply or the capacity to develop that capability.

In terms of the foci being placed on the North West Shelf project, I note that Woodside has appeared before the committee and has provided detailed information on the factors that have led to the development of the nation's largest single resource project. Woodside is far better placed to comment on the detail of that project. Nevertheless, it is a project which will bring lasting benefits to the nation. Indeed, it is one of the largest single resource developments this country has ever undertaken and it demonstrates what can be achieved here.

The benefits associated with the development of the nation's oil and gas industry have recently been assessed by the Australian Bureau of Agricultural and Resource Economics. These results highlight how significant the industry is to Australia: resource tax payments that exceed \$1 billion per annum; net exports of more than \$1 billion per annum with significant levels of import replacement; flow-on increases to both gross domestic product and employment numbers; and significant multiplier effects throughout the economy.

Australian industry has a crucial role to play in the development of national petroleum resources. It is true to say that all elements of the industry are just joint stakeholders in the resource development process. To this end, APPEA has maintained a strong commitment to ensuring that possible impediments to an industry-wide level, which may be acting to restrict the ability of local companies to be part of the development process, are minimised. APPEA sees this as an essential part of the petroleum industry's commitment to the question of local content.

While APPEA's submission canvasses in more detail industry's initiatives in this area, I would like to touch on a number of them. Since 1990, APPEA has released annually a comprehensive survey of potential new developments and opportunities within the petroleum exploration and production sector. This document, which also includes the relevant company contact details, provides potential suppliers with a unique opportunity to approach major developers at an early stage to promote their capabilities. The next edition of this document is being finalised and it will be out next month. It will be widely circulated to all industry parties.

APPEA has a strong associate membership base, with around 100 member companies directly involved in providing services to petroleum explorers and producers. Many of these companies have activities in the heavy engineering and equipment supply sectors of the economy. As part of our commitment to associate members, a detailed services directory has been prepared. It is widely circulated within Australia and internationally to promote the services operated by these members. These directories have been provided to Austrade and have been used for promotional activities overseas.

APPEA is a member of the federal government's oil and gas consultative group, which has as its primary objective the bringing together of key stakeholder representatives to assess and discuss such issues as impediments to local participation. APPEA recently approached the Minister for Industry, Science and Tourism with a view to reinvigorating the activities of this group. We were rather dismayed to find a response in which the minister said that he viewed this committee as having achieved few outcomes and he was reluctant to commit his department's resources to its continued operation. From the petroleum industry's perspective, such a group's continued operation is essential. Its outcomes can be more accurately assessed by the problems that do not arise rather than the tangible perceived outcomes. We would certainly be pleased to see a recommendation arise from this review that the government should fully commit itself to such a forum in recognition of the importance of a robust healthy oil and gas industry.

In addition to the Oil and Gas Consultative Group, APPEA is also a member of the Western Australian local content advisory group which aims to monitor and assess possible impediments to local industry participation in projects in that state. A major initiative undertaken last year by the association was the preparation of a recommended code of practice to foster local industry participation in resource development processes. This code, which was developed in consultation with APPEA member companies, is aimed at establishing the key principles that APPEA recommends should be followed in the resource development and tendering process. While the code is not obviously intended to replace the policies of individual member companies, it clearly establishes the principle that full and fair opportunity should form the central plank of local content practices. APPEA sees its position as being consistent, both in spirit and practice, with the federal government's and the Western Australian state government's policies on full and fair opportunity.

The joint commissioning, with the Heavy Engineering Manufacturing Association, of the study into the supply of goods and services for petroleum developments underlines the strong commitments, both by HEMA and APPEA, to identifying impediments to the resource development process. The Dench McLean report, as it is known, represents perhaps the most comprehensive analysis of its type undertaken in Australia.

Before closing my remarks, I would like to comment briefly on the changing nature of the petroleum industry. For many years, offshore petroleum exploration and production activity in Australia was focused on shallow water continental shelf regions. The common image was that of either a platform in Bass Strait or a large fixed structure associated with the North West Shelf gas project. Today the industry finds itself facing a vastly different set of parameters that are altering the very nature of every-day petroleum operations.

Prospectivity is forcing explorers to explore deep water locations and the economic fundamentals that affect the industry are such that the desire to build high-cost fixed platform structures are often not an option. These changes are evident in growing trends towards the use of more mobile production and gathering systems. The most obvious example of this change is the floating production and storage take-off structures

that have been the subject of significant recent attention. This new generation of facility allows for the economic development of remote and deep water oil and gas reserves, which would possibly remain undeveloped in terms of the more traditional and conventional technologies. These new facilities provide mobility which provides considerable cost savings to potential developers.

The challenges that confront the use of these new technologies are significant to all parts of industry. From a local industry participation perspective, the committee has been advised, during earlier hearings, of the infrastructural limitations that exist in Australia on assisting the construction of these new-age developments. Commercial opportunities will ultimately dictate whether these limitations can be overcome. This is combined with an uneven schedule of potential new projects in Australia which, in itself, creates difficulties in developing expertise and constant construction programs.

Australian exploration and production industry is only small relative to worldwide operations, and the nature of individual projects will also vary. If you will continue to stress the need for stakeholders to focus on the full-life opportunities of these projects, rather than the lumpy and ad hoc constructional phase elements, it will remain APPEA's role to alert individual project developers to the difficulties and the concerns being experienced by local industry in the project development process. By necessity, however, final decisions on resource development operations—whether they are in the petroleum, mining or the manufacturing sectors—must rest with project developers.

To conclude, the question of risk represents the fundamental element in the petroleum development process. The nation will only benefit from optimum development of its resources if the risk is shared by all stakeholders rather than being fully borne by the project developer.

CHAIR—Thank you very much, Mr Jones. You mentioned your report from APPEA and the Oil and Gas Consultative Group: can we have a copy of that updated report when it becomes available?

Mr Jones—Yes.

CHAIR—Thank you. I also wanted to explore with you the introduction of the Western Australian local content policy and what benefits have flowed on to the industry from that. Would you care to comment on how you see that situation?

Mr Mullen—The new policy has really only been in place in the last three or four months, and APPEA was an integral part of developing the policy. As Mr Dowe mentioned earlier, HEMA is a representative on the Western Australian local content group. We see the benefits, quite frankly, as being the ability of such a group to identify what the impediments are and particularly to identify those parts of projects which cannot be constructed in Australia. At the present stage, the policy is in its infancy, and time will need to tell whether it is successful or not. It is a bit early at the present time.

CHAIR—It is early days.

Mr Mullen—It certainly is.

Mrs JOHNSTON—To follow on from that, can one of you three gentleman give me a very brief and also very general rundown of what you see as being the major impediments? Having identified them in a general context, how would you see that either private industry or government, or perhaps both together, could actually address those impediments?

Mr McKeon—You have mentioned the new technology that is coming forward. That new technology especially gives us the ability to explore in deeper water and to develop fields which would not have been developed. We are talking about small fields, such as 15 million barrels as compared with a Bass Strait, which is half a billion barrels. Without that new technology, those fields would not be developed.

Within the new technology, there are some very large chunks of equipment and machinery which, at the moment, it is impossible to obtain within Australia. I believe that could be the reason that one of these numbers of 35 per cent for Wanaea and Cossack has been derived. The main item of equipment for an FPSO is a tanker. The size of the tanker that we are talking about will not fit into any Australian shipyard. It can be a new build—and that could, perhaps, come from Korea, Japan or Singapore—or it could be a converted tanker, where prior to its conversion the old tanker will not fit into an Australian shipyard. That is one large chunk of it, and it obviously makes up a great proportion of cost of the total project.

These FPSOs are tethered, usually to the bottom. The size of the oil field anchoring chain that is used makes up, again, a very large proportion of the cost: many millions of dollars. That chain can only be built in two places in the world. It is made in Spain and it is made in Sweden; so that is another large item.

The oil flows from the subsea valves or Christmas trees and is taken along a flexible line up into that floating tanker. Those flexible flow lines are built to a specification, and the capability for building those is only available overseas. It comes from a company called Coflexip in France. Since 1984, those flexible flow lines have been used on a number of FPSOs. For the first time recently in Western Australia, Coflexip, the French company, were considering investing in Western Australia. Perhaps there is beginning to be the critical mass to allow them to put some investment here.

There are some other very large chunks of equipment that go into the mooring and swivel system: at the top, which hooks onto the tanker, and at the bottom, which swivels on the ocean floor. Those large bearings are really only capable of being manufactured overseas.

One item that Australia has a capability for is possibly—and these have been built in Australia previously—the riser, which is a large cylinder running from ocean floor to the top. That sort of fabrication can be done here in Australia. Subsea trees are an item which is very high technology and which, until the FPSOs of the late 1980s, had to come from overseas. BHP Petroleum in fact, worked very closely with Cameron Ironworks at Mordialloc in Victoria to develop their capability, so that now the subsea trees are available from Australian workshops. But, of course, they do have to tender competitively with other manufacturers of subsea trees around the world.

Having mentioned those large chunks of equipment—and we could be talking in the region of 40 to 50 per cent of the total value—it is not possible at this stage to have those items built in Australia. With the lumpy construction schedule that we have mentioned, there is no smooth ongoing construction program, and it is going to be virtually impossible for somebody to come in to a greenfields organisation and put in the

sort of investment that is required to start off those very large industries.

Mrs JOHNSTON—I do not think you quite answered the second part of my question, though. Having identified the impediments—and you have done that very nicely, thank you very much—apparent from the fact that we have got a lumpy program here at the moment, as you call it, do you envisage in the very near future that there would perhaps be a greater amount of exploration? I guess there is a catch-22 situation: on the one hand, if you have the exploration and you do not have the infrastructure, it is a costly exercise; on the other hand, if you have the infrastructure but no on-going exploration, of course that infrastructure is then lying idle. In your opinion, do you see that there is going to be some advancement that can perhaps be made with proper planning and better prospects of returns on investments? Is there anything like that in the pipeline, or is it all too difficult?

Mr McKeon—No. The example I that I gave—of the subsea trees not being available at one time and then being available through cooperation between company and explorer—is an example of the way it happens; but it does require, I believe, a critical mass to be ongoing, because that investment does need the return. With items such as the 1970s and 1980s equipment that was not available in the past—items such as electrical gear, computer equipment, valves—the majority of this equipment used to be imported. More and more, because there is a critical mass of offshore development for some of these items, that sort of equipment is now manufactured here in Australia. But, with the very large items, I feel it could be quite some time before we are going to have, for example, a shipyard that could take a supertanker or thereabouts.

Mr Mullen—Can I expand on that? The question of identified reserves and exploration is a good point. Australia has identified considerable gas reserves, for example, in various regions. And the opportunity exists, where we can identify that there may be deficiencies or inabilities in Australian industry to meet certain specifications, for those elements to be focused on, to at least make us more vigilant and perhaps increase future opportunities.

The difficulty we have, to some extent, is that the ultimate determination as to whether a project goes ahead or not is usually dictated by economic factors. With the best of intentions, we would like to have a structured program of developments being announced every year. Ultimately, it is the bottom line that will dictate it, unfortunately.

Mr Jones—And the bottom line is dictated by the world market.

Mrs JOHNSTON—Exactly: the market.

CHAIR—Has the role that the major projects facilitation unit in the Department of Industry, Science and Technology plays been helpful to your industry? Has it been an advantage to have that unit operating? What role has it played?

Mr Jones—It is a horses for courses situation, Mr Chairman. If the impediment is within government, then they can help, assuming that the interdepartmental processes are working. If the impediment is outside government, that is an entirely different situation.

Mr O'CONNOR—Could I make reference to the development of an Australian manufacturing capability with regard to the new technologies that are being employed? What motivated your company to seek out an Australian supplier? What do you see as the advantages of getting Australian involvement in the manufacture of these new technologies? Is there anything that government can do to assist the process of getting a better Australian industry involvement in them?

Mr McKeon—The advantages for our industry of having the service, the goods, the back-up and the maintenance on our doorstep are plainly obvious. We prefer it that way. There was mention made earlier of looking after Australian industry for our children. Within the very good project teams and development teams within the oil industry—and it is essentially Australian teams that have made this successful development—people are very interested in looking after Australian industry. They also want to create jobs for their children.

We would prefer to have the industry on our doorstep. It is far preferable to be looking in an emergency for equipment, service back-up and maintenance on your doorstep rather than from Korea, Japan, Europe or America, for those reasons of lead time, extra costs, et cetera. My company has used the Industrial Supplies Office. We currently have a project in the planning phase, the Eastern Gas Pipeline project, which will run essentially from Longford through to Sydney. We called in the Industrial Supplies Office from Victoria at the early planning stages of that project, and we had them make a presentation to the project team, and the project team presented to the ISO what our plan was.

The ISO were very helpful and continued to liaise with both our engineering group and commercial people within our Melbourne office, to source Australian suppliers. They also assisted a number of the overseas contractors and service providers—potential suppliers who were stationed overseas—who were interested in possibly putting together joint ventures within Australia with companies capable of assisting in the overall end value, end product. So the ISO have been helpful to us in that particular project. They are also obviously very helpful to a number of other industries who are also looking for import replacement.

In terms of government assistance, our industry is not in any way looking for government assistance. As for assistance for suppliers, I believe government assistance can only be a short-term blip. I do not believe it can help in the longer term, because the business has to be there in an ongoing way and the returns have to be there for that company. I do not believe that there is anything, by way of facilitation or material assistance, that the government needs to be very involved with.

Mr Mullen—To expand on those comments, I think the government has a very important role to play in the first instance, though—and I guess this reflects the terms of reference of this committee—in identifying what the impediments are. As an industry, we are very comfortable with canvassing our members and ensuring that we can identify what the impediments are, and there are other elements of industry that will raise with us what their concerns are with the tendering process and what they perceive as problems with local content. But we do need a coordinating role on the part of governments if we wish to really identify what the true impediments are and how we can resolve them, if they are resolvable.

Mrs JOHNSTON—Would you consider what has been perhaps, in some people's view, the too fast removal of tariffs on certain elements of your industry and others as an impediment?

Mr Mullen—Mr McKeon could probably answer that, in terms of his involvement with tariff issues.

Mr McKeon—There are many items, which we have just talked about, that Australian industry is not capable of supplying. We find, with the planned and future rulings on tariffs, that those items, although not available from Australian industry, may be subject to customs duties. That is an impediment.

Mr ALLAN MORRIS—That is the new three per cent duty on all items?

Mr McKeon—That is correct.

Mr ALLAN MORRIS—You guys brought that in, just last year.

Mrs JOHNSTON—Customs duty.

Mr McKeon—We see that as an impediment to what we are doing, but it is not so much a matter here of the explorers and developers. You are also looking at our suppliers and subsuppliers: their inputs to their manufacturing processes will also increase by the levying of duties such as that. So, certainly, that is seen as an impediment.

Mr Jones—I would also like to see a little more flexibility in the way Australian Customs operates at times. We have just had an interesting experience of a company bringing in one of the Christmas trees that Frank referred to. Because they needed to get the project under way quickly, they got a tariff concession order exemption; but, because of the leads and lags, half the Christmas tree was brought in with one shipment, the other half of the Christmas tree was brought in with the next shipment. Customs deemed that, since neither half of the shipment matched up with the full description of the Christmas tree, \$300,000 worth of tariffs was payable. I understand why Customs need to have rules, and I understand why they need to be careful and vigilant about avoidance; but a little bit of commonsense would occasionally help.

CHAIR—Is this a regular occurrence that has happened before to the companies involved?

Mr Jones—We have had experience of this before.

CHAIR—With that happening?

Mr Jones—It is called 'split shipments'; that is the issue.

CHAIR—The company involved has not been able to get an exemption for that?

Mr Jones—They have got the exemption first up; but, because the shipment has come in split, they lose the exemption.

Mrs JOHNSTON—For the second bit or for the whole lot?

Mr Jones—For the whole lot.

Mr ALLAN MORRIS—It is like when you bring goods home: whether you ship them or whether you bring them home.

CHAIR—I come back to the recent assessments that we have had about the level of Australian content in the North West Shelf area and the tremendous range—it ranges from about 30 per cent up to 70 per cent—in local content. How would you define local content? With such a wide variation, can you define what you see as being local content?

Mr Mullen—I could probably best answer that question. We have presented a number of tables in our two submissions, and we obtained those numbers by basically asking our member companies what their local content levels were.

Mr ALLAN MORRIS—But you know that means companies, don't you?

Mr Mullen—I beg your pardon?

Mr ALLAN MORRIS—Are you saying that means content, or companies?

Mr Mullen—We have approached our member companies to seek out what their level of local content is.

Mr ALLAN MORRIS—But was the question you asked them how much of their 'content' was sourced in Australia, or how much of their 'contracts' was sourced in Australia?

Mr Mullen—I was going to come to that point. The structure of the various joint ventures and operations in Australia today is such—and Frank can comment on this—that companies are often no longer project developers. The project development phase of projects is in fact moved on to a professional project manager. It is a fact of business life. Large petroleum companies do not have the opportunity to develop the expertise in project management at the development stage. Therefore, the information that is provided will, in some instances, cover just the question of the amounts that are awarded, in terms of the general sense, which may lead to an indication of numbers slightly higher than the actual level of participation in the project. It will vary on a case-by-case basis.

Mr FORREST—Can I just ask the question in a different way? Consider a contract which may go to an overseas company: if it is a large pressure vessel, they may source the valves or other smaller components in Australia. You need to make a distinction about contracts and content. Are you able to make that? On page 4 of your submission, you give a table with what I would think are fairly encouraging figures of content—

Mr ALLAN MORRIS—But they are wrong.

Mr FORREST—Can you make that distinction?

Mr Mullen—The distinction could be made, but in terms—

Mr ALLAN MORRIS—No, it cannot. I am sorry, but it cannot. Woodside have made it very clear that they do not do what Defence does. Whereas Defence goes to about the third line of supply in terms of content, Woodside in Australia and other companies that are onshore do not go beyond the first contract level. They do not track the product beyond the first contract, and so they do not know who supplies the components to the Australian company that is actually supplying them.

Mr Mullen—That certainly would be the case.

CHAIR—Perhaps you could respond to that, too, because it is linked in with Mr Forrest's question.

Mr Mullen—In the case of the larger projects, that possibly is the case.

Mr ALLAN MORRIS—The point is that your submission is actually quite misleading, because you use the words 'local content' all the time rather than 'local companies', which would be a more accurate description.

Mr Jones—Mr Chairman, we do have to be a little careful here. Woodside is not the only company that is involved in project development. Depending on how you split the North West Shelf up, that table covers six projects—each one of them, I suspect, managed by a different company. We cannot comment in detail on what each one of the developers has done and how they have reported the information.

Mr ALLAN MORRIS—The point I am making is that, in a public document to the committee, you have used the words 'local content' only, and that is actually misleading because you cannot say it is local content: all you can say is that it is local companies. It is quite misleading. How much so, I do not know; nor do you and nor does anybody else. But the word 'content' is used constantly. It infers content when in fact what you really mean, and all you can know, is that the contracts were let to local companies and that this was the value of contracts let to Australian companies.

CHAIR—Do you have any further response to that, or any responses to Mr Forrest's question?

Mr FORREST—It seems to me that one way to encourage Australian indigenous industry in this whole area is to let them start small. If it is valves building up to a Christmas tree and the stainless steel technology, we will not get into it quickly, but that is the way that we can encourage the industry to be involved. Maybe these figures underestimate that level of involvement. For example, the installation of those large anchor chains that you referred to could be done by Australian companies.

Mr McKeon—Yes.

Mr FORREST—They could get involved in that, and that could be hi-tech as well: undersea work and so forth. That is why I am interested to know whether that level of assessment is able to be made in figures like this.

Mr ALLAN MORRIS—It is actually back to front, John.

CHAIR—Just a moment. I think it bears a response, firstly. If you would care to respond to Mr Forrest?

Mr McKeon—On the local content issue and how you calculate the figures, it is very correct to say that the companies do not go down to level 2 or level 3 monitoring of what goes on. There are pluses and minuses, in that there are examples where contracts are let, such that the company may indeed go overseas to buy some of the subsupply items, but there are also occasions where they come in and they are buying them locally.

The discussion here in some respects also make it look as if the companies are in fact using letterbox name plates as a builder of local content. The idea is to try and place that contract with the company that you have dealings with. It is not a matter of placing a contract or an order with a company that has a representation in Australia when you in fact know that they are going to get all that equipment overseas or in some similar fashion. In most cases, you are trying to deal with the person who is manufacturing or the person who is supplying. So, with the placement of those contracts and purchase orders with Australian companies in the first instance, it is very true to say we do not monitor down to level 2 or level 3. However, the resources required to do that would be absolutely enormous; you are right.

Mr ALLAN MORRIS—Just to follow through the final point that John was raising, in fact it is the opposite of what Mr Forrest suggests. It could be quite possible for the Australian company to be in a joint venture with the supplier of the chain and, notionally, the chain could appear as Australian content. It may not be the case, but notionally it is quite possible. If that fringe company establishes here, it has some capacity here and is joint ventured here and therefore becomes Australian in that sense, so it could still source 90 per cent of the product from France but it would notionally come through as local content, 100 per cent Australian. In other words, it is the other way around: the chain could be seen to be Australian, simply because the company that actually provides it and installs it is an Australian company. Is that correct?

Mr McKeon—Yes; what you are saying is right. If a contract were let in that manner, as there is no checking of the level 2 and level 3, what you say follows absolutely. However, with items such as that, when it is the very large lick items, the developer is going to deal in most cases directly with that company and have another contract for the installer for the installation.

CHAIR—Can I move to another topic? You made a reference to delays in the start-up of a project. In 4.6 of your submission, you said that ‘delays in the start-up of a project can significantly decrease a project net present value’. Was that a reference to delays in the Goodwyn A platform? What caused that delay? Was it because of the government’s intervention in trying to secure greater Australian industry participation in the project? What were the reasons behind those delays?

Mr Mullen—The reference there was more generic in nature. In terms of the nature of petroleum developments—particularly with gas developments—contracts are often needing to be signed well in advance of the project actually going ahead. Any delays, whether caused by overseas delays, local delays or government decision making delays, will of necessity potentially impose a penalty on a developer. There can be a change of the economics which surround a project, and that can alter the net present value of the project by a delay of three to six months. It was a more general comment that talked about the importance of

meeting the program.

CHAIR—You are talking about a number of factors rather than one single influencing factor: a number of factors which could have been driven from overseas.

Mr Mullen—Absolutely; it covers many possibilities.

Mr ALLAN MORRIS—There could be a cyclone which stops your shipping from Korea to Australia, too.

Mr Mullen—One outside our control, unfortunately.

Mr ALLAN MORRIS—There are a few other questions I would like to ask and I will try to be very brief, but it depends on their answers. This is a very different topic that goes to the financing of projects. I do not know which companies you work for because it is not in our brief, but I presume you work mainly for overseas petroleum companies. Can you explain to me whether the thesis is correct that most of the foreign investment in our resource projects, particularly in the petroleum area, is in the form of borrowings to Australian subsidiaries rather than in direct equity investment by the overseas companies?

Mr Mullen—That is a good question. Unfortunately, none of us here represent overseas companies. But we do have some information which talks about borrowings in terms of debt capital financing of projects in Australia.

CHAIR—Can you make that available to the committee?

Mr Mullen—Yes, we can make that available.

Mr ALLAN MORRIS—Can I put it further to you that, if in fact most of the projects are financed by borrowings, then the Australian subsidiary would be claiming the interest paid as deductions against its earnings. So there are two cash streams to the overseas borrower; one is the interest on the borrowings and the second one is the eventual expatriated profit. Are you with me?

Mr Mullen—Yes, I understand your question.

Mr ALLAN MORRIS—If Shell put \$20 billion in the North West Shelf and they take the earnings off that, they pay tax on the earnings in Australia. If they put \$20 billion into Shell Australia, who then pay 10 per cent interest to Shell overseas, there is a \$2 billion interest payment. After Shell Australia gets its return and pays its Australian tax, it then expatriates its net profit.

CHAIR—Are you able to respond to that?

Mr Mullen—I can give a very quick response now and we can provide you with more information. We do an annual survey of our member companies, and it covers virtually the totality of the industry. In terms of the valuation of the industry which we would use as total assets as a value of the industry,

approximately a quarter of that is financed through borrowings.

Mr ALLAN MORRIS—How do you know?

Mr Mullen—In terms of the survey, we ask companies to indicate what portion of their investment is associated with equity funding and which part is debt funding.

Mr ALLAN MORRIS—I am sorry. You have mistaken the question obviously. If Shell borrowed from Shell, that is not borrowings in their terms; that is internal. Shell, being the world's biggest holder of cash, is a major financier for projects. So if Shell Australia borrows from Shell Holland, it does not appear as borrowings externally. What you are talking about is if they borrow on the market.

Mr Mullen—So it is an internal financing question you are really asking, rather than external.

Mr ALLAN MORRIS—International transfer to Australia, and I would be interested also if you could ask your principals whether in the last 10 years there has been a substantial shift from equity holders in Australia to borrowing holders in Australia for the same projects by the same companies.

CHAIR—Mr Jones wants to respond.

Mr ALLAN MORRIS—I would ask you to respond perhaps afterwards.

Mr Jones—We will pose the question. We are an industry association, but whether the companies care to tell us what is basically commercial information is up to them.

Mr ALLAN MORRIS—I accept your problem. I am just putting it on your agenda so you know that you have been asked formally. I would not expect you to respond now, because that would be quite unfair. I would also ask you to consider the implicit intercompany relationships where the buyers of the products are also heavily involved in the production. I will take the most recent example of Mitsubishi building the gas ships without going to tender. It was never asked for, never let and very likely Korean shipyards could build it as cheaply, if not cheaper. The original ships were never tendered and the last two ships were never tendered.

When one talks about competitiveness and all the rest of it, one gets a bit cynical. There is a real suspicion in Australian industries that the supply of products, material and contracts is often more to do with the buyer dictating the terms. Again, I will not ask you to respond now, but I would ask you to take it on notice. Have you had any experiences or concerns of that kind of thing?

CHAIR—Would it be in your ambit to offer an opinion on that?

Mr ALLAN MORRIS—They can ask their companies. You can ask your members.

Mr Jones—We can ask our members. Let me make the point to you that our members come from both sides of the fence, so it will be an interesting answer if we get one.

Mr ALLAN MORRIS—I have a final question. I have asked it of Woodside and it is of some concern to the Western Australian government. One of the concerns that has come forward with floating platform technology is that, because of its nature, it may underdevelop a resource. In other words, you can do it very cheaply. At the Wanaea and Pioneer oilfields they are ripping out 2 million barrels a day or \$700 million a year in actual sales. In other words, it paid for its whole capital in cash flow in one year. But it is very likely, according to many people, that they will pick the plum or the best part of the resource and not necessarily fully develop the resource. Woodside queried that, but it has been put to me by a number of people in the industry that there is a very real danger that Australia will not fully utilise its resources because it is actually creaming off the easiest part of the resource by some of this floating technology. It is a technical question.

CHAIR—If I can ask you to take those questions on notice back to your members. If they are able to respond, would you provide the committee with whatever information members of your association are able to provide?

Mr Jones—Do you have a time frame?

CHAIR—We are trying to move this inquiry along fairly rapidly. I would ask that you do that as quickly as possible. I will leave that to you.

Mr ALLAN MORRIS—Mrs Johnston is not here, but I am sure she would have liked me to have asked this question because it was raised by her government in Western Australia. I want to ask whether or not your association is supportive of the thrust in Western Australia for Jerviose Bay to be developed in the way which they are putting forward. Again perhaps you would like to take this one on notice, because it is not one that you would necessarily be familiar with.

There was a strong submission from the Western Australian government seeking this committee's and the federal government's support for Jerviose Bay and the industry there was supporting it. I think it would be appropriate if we were to ask whether or not your members would be supportive of the building up of a stronger capacity and government attention being given to Jerviose Bay to try and find ways to help it develop.

CHAIR—Do you have any response to that?

Mr Mullen—If it is identified that it is a major impediment to Australian industry participation in the new age projects, our view is that, if it is removing a potential impediment, we have no problems with that sort of facility being established. It must be recognised of course—and I am sure everyone is aware—that such a facility has to meet needs which are obviously far wider than the oil and gas industries.

Mr ALLAN MORRIS—I am just asking whether or not professionally you have any doubts or whether you are positive about what the Western Australian government is putting forward. Forget about the money they are asking for; that is a separate issue. It is whether you think what they are putting forward is sensible and achievable in the Australian context.

CHAIR—We will have to leave it at that at this point.

Mr FORREST—I have one more question and it can go on notice. Being a Victorian, most of the focus has been on the North West Shelf. We do have comprehensive Bass Strait oil development. If there is a distinction between the two, is there any difference in these kinds of figures for Bass Strait development? You may have to think about that one as well.

Mr ALLAN MORRIS—Yes, there is.

Mr McKeon—Something was mentioned a little earlier about the developers and not knowing how much oil they are taking out of the ground. If I can just say that there are very sophisticated measuring devices used.

Mr ALLAN MORRIS—No, I did not say that. What I meant was that, because of floating platform technology—

CHAIR—Just a moment. Can we have the explanation?

Mr McKeon—It was mentioned earlier that one does not know how much oil is coming out of the ground. There are very sophisticated measuring devices used both for oil and gas and the amount that is taken out of the ground is of course reported to government on a regular basis.

CHAIR—Thank you for that comment. I have to wind it up there. Thank you very much for your attendance, your answers to the questions and your readiness to undertake to further respond. I appreciate your efforts in canvassing your members and responding back to the secretariat.

[10.45 a.m.]

JOHNSON, Dr Allan James, Councillor—IEAust Council, Institution of Engineers, Australia, 11 National Circuit, Barton, Australian Capital Territory

REEDER, Ms Lynne, Senior Policy Analyst, Institution of Engineers, Australia, 11 National Circuit, Barton, Australian Capital Territory

WALKER, Mr Peter, Associate Director—Education, Institution of Engineers, Australia, 11 National Circuit, Barton Australian Capital Territory

CHAIR—I now call the Institution of Engineers, Australia. I welcome the witnesses to this second public hearing of the House of Representatives Standing Committee on Industry, Science and Technology of its inquiry into Australian industry participation in major projects focusing on the North West Shelf project. The committee proceedings are recognised as proceedings of the parliament and warrant 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 or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of parliament. The committee prefers 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. Would you care to make an opening statement before we begin any questions?

Mr Walker—Yes. The Institution of Engineers has put in three prior written submissions and we have appeared before the committee in Perth. It is important to note that the technical aspects of our submissions have already been made to the committee, particularly the submission that was made in Perth and we do not wish to address those issues this morning. The points made in all of the submissions so far are still relevant to the committee's inquiries. The reason why I do not want to dwell on the technical aspects is that I am in education and not competent to comment on technical aspects.

This brief submission addresses more specifically the responsibilities of specifying the requirements for skilled people in industry in general, and who will provide the education and training resources. It is important to draw your attention to the submission that we made to the committee on 8 January. The issue is that educational standards and training opportunities will continue to be vital. There are a number of policy changes currently occurring and these include the structural changes in utilities; the introduction of a differential high education contribution scheme; cutbacks to research development incentives; and the changes mooted to immigration policies.

Individually these changes may not appear to have any significant influence, but taken together they may well compound to cause engineering skills shortages in the medium term and it is those shortages that we feel it is important to emphasise. The question which needs to be addressed in the short term is: do we want to wait until these skills shortages with all their flow-on effects, including problems such as wages explosion and lack of indigenous skill support of the industry, or do we anticipate and monitor developments

in such a way as to solve them before they become a major issue?

Australia has undergone massive changes in recent times which has seen changes in the structure of our work force. Government has significantly downsized its utilities, for example, Melbourne Water who used to employ something in excess of 2,000 employees, now has approximately 200. In 1985 the electricity industry employed 4,190 people throughout Australia and in 1995 this had dropped to 2,253.

The institution's own member profile demonstrates a fundamental change in the composition of the work force. In the past over 80 percent of IEAust members and APESMA members were in the public sector. Now only 29 percent of engineering workers are in the public sector. We know that government utilities in the past provided a rich training ground for graduates and the government is on record as saying it will no longer be the soft touch for training. The question which needs to be answered then is: will industry pick up the shortfall in training? I suggest that it is not a question of will it, but how can we encourage it so to do?

Will all industry or just the big companies who have resources both financial and human put that into training? What of the SMEs both the second and the third tier? Where will the skills shortages occur? This means that we have to have an understanding of strategic planning on a national basis. For example, the water industry is saying that they have effectively stopped training and, unless they do something about it, a major problem will occur in five to 10 years time. What this says to me is that it raises the importance of continuing professional development as a national strategy, rather than have it happen on an ad hoc basis within various industry sectors.

At the moment Australia is benefiting from a large number of people who are able to take up consultancies, but they are experienced people from utilities who have taken a package. As we move to more contracting out, where will the skills come from in the future? Where will the skilled practitioners come from and what this indicates is that there needs to be a change in the face of university education. Very few courses that we accredit actually address the issue of entrepreneurship. So graduates cannot be expected to actually address the issues of going into business for themselves and they jolly well ought to.

As for the training provided by the large companies, what percentage of the large companies are in fact Australian owned? That question really raises the issue of whether such a company, if it is overseas owned, wants to contribute to an education process which is inside or is it more applicable to actually import those people? That is fine if the people come to stay and share their expertise with us, but if they come, do the job and go home again, then there is very little benefit to the level of Australian understanding.

Physically as well as discipline areas, where are the large companies? Are there gaps in the skills mix? For example, civil engineering is okay at the moment and mechanical engineering is not. Now that could change over time and probably will. Will business use immigration to top up skills rather than use a more expensive option of training? I very strongly believe, and the institution believes, that we ought to actually move towards some sort of incentive whereby industries within Australia are encouraged to either top up or hire engineers.

It might be interesting for the committee to understand that there are some 16,000 SMEs in Australia. I know this is not specific to your inquiry but I think it is worth repeating. Of those 16,000 SMEs you can

count on the fingers of one hand those that actually employ engineers. Yet there is the area that has the greatest potential for increased employment and there is the area which has the greatest potential for increasing wealth to Australia. It is an area that desperately needs addressing.

The institution believes that there is a need in Australia for a more sophisticated and coordinated debate on how to achieve a balance between two dominant policy questions. That is on the one hand, how to achieve more open and internationally competitive markets and on the other, how to implement supportive, nurturing policies aimed at providing opportunities for Australian industries to compete against international companies. Too often these important government policies are being pursued independently. It is the nurturing element that has the most potential for encouraging industries to support their own efforts in providing an educational infrastructure.

That comes down to the fact that the question to be answered is: how to best provide encouragement and incentive pressure for industry to invest in training and education for their own staff? To wrap that up, we have a couple of recommendations. DIST and DEETYA should undertake research to identify the long- and medium-term skill shortages within the offshore oil and gas industry. Once that has been completed, there needs to be a joint working arrangement to provide incentives for industry to participate in providing locally delivered on-the-job training and education for staff. To underpin that, it may very well be a useful idea to consider the use of advanced engineering centres to be the mechanism whereby that sort of support and encouragement can be provided in a practical way.

CHAIR—I am concerned to hear your comments about the shortage of skilled engineers. I wonder if the institution has current figures on the areas in which engineering is in decline. If you could furnish those figures to the committee, that would be of interest to us. I understand that the Department of Employment, Education, Training and Youth Affairs has some knowledge of this also but it is their view that they do not have an ongoing role in meeting that skilled shortage. If you do not have the figures with you now, perhaps you could provide them to the committee.

Ms Reeder—I suppose we are saying that to a large extent these are skill shortages which will emerge in the near future—five to 10 years. In the past five to seven years, Australia has undergone massive changes to the structure of its work force so that, as Peter said, 80 per cent of institution members were in the public sector, and that provided their training opportunities.

Government has massively downsized and stated that they will not take on the training they used to in the past. If we say that that downsizing has occurred and we know at this stage that a lot of those people were able to set up as consultants or move straight into the private sector essentially because they already had their skills training, then where will those training opportunities come from in the future?

We tabled for the committee's information a study undertaken by the institution which looked at the impact of contracting out privatisation and competition policy on engineering and infrastructure related areas. There is a lot of anecdotal evidence in here to say, as Peter mentioned within the water industry, that training has stopped in those industries and unless it takes up again, in five to 10 years we will have major problems. I have been doing a lot of research to see to what extent there is information around on this topic. To my knowledge, work has not been done to actually find out where those skills gaps are going to occur.

We also had a copy of a document that was undertaken by consultants on behalf of the utilities ITAB, the industry training advisory body. It also said that there will be skill shortages in the next five to 10 years. A lot of people are identifying it as an issue, but we really need to work out whether it is better for the department to undertake a study or whether the institution and a number of other associations should do it as an internal study.

CHAIR—You make reference to the changes from the public authorities and utilities. Much of that work has obviously gone to private engineering firms and they are operating in an international environment. Are you saying to the committee that they are not providing the ongoing training? The work would still have to be done by engineers. Are those engineers not Australian based or Australian trained? Is that what you are saying?

Ms Reeder—We are saying that the people in the market at the moment already have their training, so they are easily able to move from the public sector into the private sector without any significant difference for Australia. They are trained, skilled people and they have moved from one sector to the other. It is not a problem now. But if industry does not pick up the slack in the opportunities that government did provide, then there will be an imbalance in the future.

Mr Walker—The point that I was making earlier about there being some 16,000 SMEs without engineers illustrates that fear—that the training role will not be picked up by the people who have moved into small consultancies. I think Allan has an example that he will probably tell you about later as to why commercial pressures predicate on doing that. There needs to be some mechanism to build in the training activity into the shift that has happened.

Dr Johnson—As an example, in my own case, I was a manager several years ago of the national engineering company Maunsell Pty Ltd in Canberra. I had mothers and fathers ringing me, pleading me to take their undergraduate students on for work skill training. I could not do that because we did not have a lot of jobs on the agenda—and we are still going through that same malaise where there is not a lot of work around—so the engineers that we had were flat chat, very busy doing the things that engineers do. To try to spend the time with student engineers is very time consuming and can be a little frustrating at times, but in the better times, when there are more projects on, obviously it is quite easy.

It seems that if we can kick-start some of these major projects—perhaps the VFT is a classic example where we can write in to ask for tax exemptions and tax relief, a trade-off for training—we will have a lot more work to do and we will have those mums and dads quite happy. They will not have to ring me up in my capacity and say, ‘Please, I’ll pay you to take my student on.’ It was quite deplorable and quite upsetting that we could not help, and I do not think that has changed a lot in the last few years. Given that type of delivery, if I could perhaps go on and make another point unless somebody wanted to take up that issue.

Ms GAMBARO—I was going to ask about university education, and you have expanded on that.

Mr ALLAN MORRIS—A drop in TERs?

Ms GAMBARO—Yes. I was going to take up the entrepreneurship issue that you were speaking

about. A few years back at the university I taught at, I taught marketing to engineering students. I had never done it in my life. They combined a business course with an engineering course, and the students had a double major. Are other Australian universities doing that? Are they taking up that challenge and giving those engineers marketing and business skills as well as the engineering skills and does your association consult widely in the educational sector there? That was the first issue I wanted to raise with you.

Dr Johnson then went on to speak about the fact that young graduates had nowhere to go. Is it possible to restructure some of these engineering courses so that there is a large component of on-the-job experience? I notice that Charles Handy, in one of the papers the other day, was talking about MBAs, how traditionally people have done MBAs and then come into the work force expecting to go into another area and how MBAs should be structured in such a way so that students work for a company for a period of their MBA—let us say a quarter of it. Can we look at some of these areas as well? They are just some of the issues?

Dr Johnson—That is what has been happening, but you yourself have just said that you went to a university to do a marketing course and you had not had any prior experience—

Ms GAMBARO—I taught marketing. Sorry, I should have clarified that.

Dr Johnson—to teaching students or getting across—

Ms GAMBARO—Yes, I never had engineering students until just recently.

Dr Johnson—There is nothing like hands on and, unless we can get that training in the field, we do not get the reality of the real world out there. I think that it is vitally important that we can do something to create those opportunities for our students, to do that as part of the university training out in the real world. It is just a big benefit.

Mr Walker—I think the points that you have raised are really key to not just this inquiry but the changes of education in engineering in Australia. To answer your question about whether we have an interest, yes, we have a vital interest. My task in particular is to try to influence the various universities—some of which are doing double degrees as you suggest, and they are doing it extraordinarily well. Because of the success of those small numbers who were doing the double degrees, it is my personal view that we ought to, through our accreditation process, introduce a very large amount of encouragement, with a big stick somehow or other, to have a professional development stream across all four years of the course to include exactly the sorts of things that you obviously did with your students in the marketing arena.

I believe that we have come past the area where the four-year degree is considered in isolation. We have to consider the four-year degree as part of a continuum of lifelong learning that starts when you go to school. We then welcome them to the profession as they come into the university and we keep that stream of development continuing on. But I have digressed a little bit.

There are some people who have introduced entrepreneurship as a formal part of their course, others have introduced it as an ad hoc part. I would like to see it as being a fundamental requirement in the same way as years ago we forced a 10 per cent management component, and that is now in place. That arena is

one that is changing and it is changing very rapidly.

Ms GAMBARO—I would just like to continue on with that. We have had submissions to this inquiry about tendering for projects, local content and marketing the company's expertise. I agree with you wholeheartedly that it is not just engineering anymore, it is marketing skills, it is negotiation, and that is where a lot of our engineers have fallen down, traditionally.

Mr ALLAN MORRIS—They are non-verbal.

Ms GAMBARO—They are non-verbal, Mr Morris says, which could be true.

You spoke about civil engineering and that there is a shortage of mechanical engineers and you said that we go through phases. How can we identify these changes more rapidly? A lot of it is based on economic trends. Would you not agree with that? How can we tap into that so that we can prepare for shortfalls in some of the industries that you were mentioning?

Ms Reeder—I have been talking with DEETYA to try to ascertain what work has already been done and how we can actually start doing some of this. One of the problems is that it is seen as the old manpower planning back again and that is anathema to the market. There is that sort of ideological problem with any sort of forward planning in these areas.

We are certainly negotiating with DEETYA. They already identify skilled vacancies but that just says what exists now. We are really asking, three to four years out, can we be doing some work which actually identifies where these skill shortages are going to occur, particularly given the environment at the moment. We have had these quite massive changes. They are not just trend changes that are bumping along the bottom. As Peter mentioned, Melbourne Water has gone from 2,000 employees down to 200. They really are quite massive changes. So even if it is only for the next 10 years, we are certainly saying that this needs to be done.

However, from what I have been able to find out, it is not being done. The ABS has done some work on training and apparently they were given a reference from DEETYA and ANTA. However, that is not now going ahead in the next few years. The institution will continue to work in that area but I also think that this committee could also identify it as an issue.

I would just like to come back to the point you made about education and training. The institution has just undertaken a major review of engineering education which went over an 18-month period and that report was launched at Parliament House three or four weeks ago. I will make that available to the committee as well. It was entitled *Changing the culture*. It was trying to pick up on this point that engineering is not just about the discipline of engineering, it is now going to be vital for engineers in the future to be aware of the social, political, and economic environment within which they operate. That has got fundamental implications to the way in which they are trained. Certainly, the links with industry are seen as a vital component of that.

Mr Walker—There is a fundamental problem because within the foreseeable future there is no long-term development strategy for industry within Australia. There are specifics that a lot of people are doing a

lot of good work in but the fundamental problem is that you have got a four-year time mass to test the water, and that is too long. You cannot wait until students graduate to say, 'By the way this lot did not get jobs because we got it wrong.'

Where the challenge is, and it can be met very nicely, is to use some of the technology that is available for delivering knowledge material, so that students can change the emphasis of their course while they are going through. If, at the end of second year, you suddenly find, 'Hey, I am in mechanical engineering, but I really would like a job in mechatronics,' then you have the flexibility to change into that stream and become a more appropriate person.

The other element of that, which I did not touch on, is that there ought to be a stronger integration between industry and university and TAFE training. TAFE training does it quite well but universities tend to become a bit insular. There is some test material that I did while I was lecturing where we were able to integrate actual project material. It was not big enough for a final year project but big enough to attract students to do a job of work that affected bottom line. That is the key issue in getting industry and academe together. You have to answer the question of 'what is in it for me' and it has to be bottom line—this month, next month. It is short term. It is those issues through the review that Lynne spoke about that we are now starting to dwell on. You are going to see a fairly major revolution in the next 12 months, I would think.

Dr Johnson—Along with the way the universities are delivering the tools of the trade, and this is where you are delivering your marketing, there are the tools and what is available out there to do. Then there is the practical application of this industrial training side that seems to be where we are lacking and having all the difficulty in getting it up and running.

Mr ALLAN MORRIS—Firstly, just on that topic, my friends in academia are expressing to me a very serious concern about the lowering of the TER levels over the last five or seven years in engineering. Particularly in recent times with the HECS thing, a lot of them are really worried about people turning to other disciplines. Has your institution got the same feedback?

Mr Walker—I guess the jury is not back yet. One cannot draw any conclusions from the numbers we have got so far. I think Queensland had an overall raising of TER, New South Wales was slightly under, but that was consistent with the general lack of demand for university places, so that was not seen to be a problem. In Melbourne, if I remember rightly, and Lynne can correct me if I am wrong, there was about half and half—some went up, some went down. I am starting to get the feeling that the ones that went down were for other reasons. I cannot say that the TER is yet a problem, but it might be.

We suspect the differential HECS is going to be a problem, but we have not got any significant feedback on that yet. I guess we are moving towards a measurement of outcome rather than pathways, but we maintain a considerable interest in, as I mentioned earlier, a whole of life situation. The transition between secondary and tertiary is a perturbation and we do not handle that perturbation at all well.

CHAIR—No doubt your organisation will be watching that situation closely.

Mr Walker—Very closely.

CHAIR—I would appreciate any input you have for us. Mr Walker, you referred to a submission dated January this year. I think the committee does not have a copy of that.

Mr Walker—It was a letter from chief executive John Webster to the secretary of the House of Representatives Standing Committee on Industry, Science and Technology re the major projects inquiry.

Ms Reeder—You do have a copy.

CHAIR—What date was it, David?

Ms Reeder—I may well have updated this. It is three pages.

CHAIR—Perhaps you could talk to the secretariat, just to make sure that they have it.

Ms Reeder—Okay.

Mr Walker—It looks as though the technology might have got us.

Mr ALLAN MORRIS—I just ask a couple of very quick questions. Firstly, could I say that it breaks my heart to watch our best and brightest going into the fields of medicine and law, both of which only require rote learning, where the area of productivity actually seems to be more and more in decline. It says a great deal about our society. I am delighted at the effort your institution is putting in to try and promote engineering as a more appropriate pursuit for our most creative young people.

Mr FORREST—Hear, hear.

Mr ALLAN MORRIS—Your submission in the previous inquiry, and again now, focuses a lot on getting design done in Australia on the basis that, if we got the design in Australia, we had a chance of therefore getting the work in Australia, because of use of Australian standards and networks and so on.

With the case of the Wandoo project, the designer for Wandoo was an Australian company, yet the work was done by Keppel. One of the underpinnings of the institution's long held values—which I quite frankly agreed with at the time and guess I still do—of some concern was a question we asked the design engineer about that back in 1995. He said he did the design but he had no say over the actual letting of the work. So the idea of design leading to a better involvement in construction is a very critical issue as are the institute's observations about that. I am sure Mr McMahon could supply the *Hansard* from the 1995 hearing in Perth, where we talked to the engineer who did that project.

Mr Walker—I must confess to not having a detailed knowledge of the topic. I am concerned about the nexus between design and implementation because I suspect that the implementation phase is very much finance driven. The problem we have in this country is: where does the finance come from? We have a problem compared with, say, the Japanese. If they have a big project like the one that you have mentioned, they do not have to go outside their company. They go to their own company bank and say, 'Provide the money.' So, I do not think it is an engineering problem. I think it is a finance problem.

CHAIR—Thank you, we are going to have wind this segment up, but I am sure that you would be available and willing to add further advice.

Mr Walker—Certainly.

CHAIR—Sorry, another engineer would like to ask a question of the engineers.

Mr FORREST—I have not asked any questions because I thought I might have a pecuniary interest as a member of the institute. I did want to make a point that there seems to be a theme in the submissions submitted by the institute recommending government intervention in imposing this Australian content. Reference is made to the defence department's offsets policy. In the case of the defence department, the government is the client but, in these major projects this committee is considering, government is not the client and are very loath to impose any sort of intervention that could result in less competitiveness. It is not realistic in some of these projects to suggest that theme at all. In fact, I would suspect it would be staunchly resisted, so we have to much more clever.

My point is that the institutions have to find much cleverer ways with changing times to develop practically related training in their academic pursuits. I come from the days with sandwich courses. You did not get your degree until you had six-months experience. These are the kinds of clever initiatives that I think the universities and tertiary training institutions have to adopt. I would like to see the institute encourage that because—you are quite right—times are changing.

Mr Walker—In general, I would have to agree with your assertion. Under the auspices of the engineering education review, we have just now started to address the 14 recommendations. I think many of the recommendations will underpin better ways of doing it. I guess, from a personal point of view, we have to use more of a carrot than a stick approach. In the short term, there may be some argument for having a bit of an incentive, and I would make it no stronger than that.

Mr ALLAN MORRIS—There is the Dawson group in Western Australia.

CHAIR—We really have to conclude. Mr Morris may be able to draw that to your attention after this formal part has ended. Thank you very much for your attendance and your offers of continuing interest in this topic.

[11.23 a.m.]

GOSMAN, Mr Alex, Executive Director, Austenergy, c/- Australian Electrical and Electronic Manufacturers Association, GPO Box 1966, Canberra City, Australian Capital Territory 2601

WOLKOWICZ, Mr Stephen, Chairman, Austenergy, c/- Australian Electrical and Electronic Manufacturers Association, GPO Box 1966, Canberra City, Australian Capital Territory 2601

CHAIR—I welcome witnesses to this hearing. Committee proceedings are recognised as proceedings of the parliament and warrant 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 or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of parliament. The committee prefers 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.

Mr Gosman—Before we start may I say that we are actually appearing as Austenergy, which is the Australian Energy Exporters Group. Our original submission, unfortunately, came in under the AEEMA banner, but we did come back to the committee and advise that it should be under Austenergy.

Mr ALLAN MORRIS—So now you represent the gas companies and the oil companies rather than the electronic companies?

Mr Gosman—No, a combination. It is the same submission; it came in under the one title.

CHAIR—The submission that we have is dated 14 August and it is under Mr Gosman's handwriting.

Mr Gosman—The submission is the same. I will explain. AEEMA is an association and we have a number of various groupings under the association. One of our activities is that we provide secretariat services to Austenergy, which is the energy exporters group. Obviously, Austenergy has a pretty strong interest in this group so the submission should have just come in under the name of Austenergy, with no change to actually what is in the submission or anything like that.

We did speak to the secretariat, advising we had incorrectly put AEEMA when it should have been Austenergy. Otherwise that does not change the nature of the questions or anything. If you turn to page 1 of the submission, under 'Introduction' you will see that we actually mention that it is submitted as Austenergy.

CHAIR—Mr Wolkowicz, do you feel confident to proceed on the AEEMA submission or—

Mr Wolkowicz—I would rather that it be Austenergy, but if you have any difficulties—

CHAIR—Sorry, I am having difficulty hearing you.

Mr Wolkowicz—I am sorry. I would rather that it remain as an Austenergy submission. The cover

letter is the only difference. It is an Austenergy group submission to the committee.

CHAIR—We have some difficulty with that because the submission that we have listed to hear is the submission submitted by Mr Gosman on 14 August. It is in relation to that submission that we wish to take evidence, so we have some difficulty there.

Mr Wolkowicz—Mr Chairman, I am quite happy to proceed. I do not want to hold up the proceedings of the committee, but the references during the discussions will be to Austenergy discussions.

Mr ALLAN MORRIS—Mr Chairman, to clarify the situation, perhaps I could ask a question of Mr Gosman, who wrote the original submission as executive director of AEEMA. Mr Gosman, are you still the executive director of AEEMA?

Mr Gosman—Yes.

Mr ALLAN MORRIS—Are you officially telling the secretariat or the committee that, in relation to the submission that you signed and submitted on behalf of an organisation, there has been a change in the ownership of the submission? Are you formally advising us that now it is a submission of Austenergy?

Mr Gosman—If I could just come back on that point—you say the submission was lodged in August. Was that August 1996?

CHAIR—August of 1995.

Mr Gosman—We submitted a submission in August 1995 as AEEMA and we put in a later submission in November 1996 as Austenergy. So we advised the committee.

Mr ALLAN MORRIS—You should not keep changing your names. It confuses us. We are only politicians, for God's sake!

Mr Gosman—It gets a lot worse. I am happy to talk to that submission. We had put in an updated submission given that the nature of the inquiry, which had started out under the previous government, had changed. But, in essence, we could cover the major points.

CHAIR—At this stage we probably cannot proceed, if you do not feel competent to proceed on the AEEMA submission of August 1995, because the members of the committee do not have copies of your further submission. I think that would make it very difficult for us to proceed.

Mr Gosman—I am happy to proceed because there is a great similarity between the two submissions. There is not a lot of difference between the two submissions. I am happy to proceed on that basis if you are happy to proceed on the basis of our 1995 submission.

CHAIR—You are happy to?

Mr Gosman—Yes, to proceed on the basis of our 1995 submission. We raise a number of the same issues.

CHAIR—You are happy to comment on that 1995 submission and are quite happy to proceed with that?

Mr Gosman—Yes.

CHAIR—As for you, Mr Wolkowicz?

Mr Wolkowicz—As Austenergy, we came in in between the two submissions. The secretariat of AEEMA is providing the back-up for Austenergy, but this has happened in between. Mr Gosman will be able to reply to some of the questions in relation to the Austenergy approach and I will reply to questions in relation to the submission of November 1996.

CHAIR—Perhaps we will proceed and the committee may direct their questions to Mr Gosman who was the author of the original submission. Then we will have to terminate your evidence to the committee at that point and we will have further discussions with you about your second submission.

Mr Gosman—Perhaps just as a step of clarification, AEEMA itself represents the manufacturers of electrical and electronic products and we are involved in a whole range of activities. Austenergy was originally set up as an export group with the support of Austrade. It brings in many of our members from the electrical and electronic area. It also brings in a number of the utilities and a number of the consultants and it has a more international focus. At the end of the day, both groupings have very much the same aim and that is to increase the levels of Australian output. I do not think there is much difference in terms of being able to address the two submissions.

CHAIR—Under those circumstances, if you are prepared to proceed on that basis, would you like to make an opening statement in support of the August submission by AEEMA or not? Do you wish to put forward a statement on that or not?

Mr Gosman—I have a number of very brief comments to make. We represent members who supply goods and services across the whole range of the energy sector. Our members in the electrical area are fundamental to Australia's manufacturing and services strengths, not only in terms of what they produce, but being an enabling technology to other sectors of the economy, particularly in terms of some of the projects that are foreshadowed in the North West Shelf. For example, our members manufacture transformers, the power and cable and a whole lot of the energy infrastructure that will be required for the various new mineral processing facilities that are mooted.

We believe the opportunity to participate in major projects is important because they enhance skills in such areas as manufacturing. They provide design and project integration skills and this is where Austenergy comes in. They establish credibility in export markets. It is very difficult to establish yourself offshore if at the end of the day somebody comes back and says, 'Are you supplying locally?' If you can supply and

provide proof of local capabilities, then it helps you offshore. In that respect, a lot of our members have been involved in such projects as the extension to the Portland aluminium smelter and GMH's Altona project.

We are keen to see the maximum achievable levels of Australian industry involvement in major projects. We appreciate that there are difficulties with mandating levels of local content, but we strongly recommend the adoption of the following principles: project developers should utilise competitive Australian capabilities in design engineering, project management and manufacturing; developers should be encouraged to recognise industry development and the nature of local involvement; and all specifications and standards should be in accordance with Australian specifications and standards.

I noted that there were some comments at the previous hearing about intervention. Unfortunately, in industry involvement in major projects Australia stands at odds with the rest of the world where there is a fair degree of intervention—very much of a non-tariff basis—in encouraging the development of local capabilities for major projects within those countries. I highlight the example in the United Kingdom where, when they started exploring the North Sea oil and gas reserves, those people who were tendering to get an exploration licence were also asked to indicate what their local industry development commitments were. Australia has not been prepared to show anything to the same extent. That kind of commitment that the United Kingdom followed has been prevalent in many other countries. Those are my opening remarks.

Mr Wolkowicz—I would like to comment on the article that appeared in the press over the last few days where CRA indicated that, when they had some French engineers here, the French engineers had the French government's backing, whereas the Australian side does not seem to get that support when there is export work to be done.

CHAIR—The Australian Electrical and Electronic Manufacturers Association Limited also has a very big input into the telecommunications area. That is one area of industry that has been held up as a shining example of international competitiveness because of the developments of the telecommunications industry. Have you had any first hand experience of the way that industry has developed and the way it has in fact been able to increase the Australian content of major projects by developing its domestic market and then leading on to international markets? Have you had first hand experience of that and would you care to comment on it?

Mr Gosman—Yes. It has been a subject dear to our hearts and it is one we have had quite a degree of involvement with over the last six years. Originally, Telecom as it then was, encouraged multinationals to invest in Australia—Ericsson, Alcatel and Siemens—to get surety of local supply and that was all very well during a period when they were the monopolist.

However, with the advent of competition, the then government, the Labor Party, with the support of the Liberal Party, put in place industry development commitments that the new carriers were expected to meet, which were very much modelled on the commitments that Telstra had made in the past. They covered such issues as local content, research and development and exports. Since Optus and Vodafone came into the Australian telecommunications market in 1992, the exports of the industry has gone up from something like \$200 million to over \$1 billion. We say a lot of that has actually come from the demand, investment and encouragement for research and development that has come from the carriers having to work with the

Australian suppliers.

On 1 July this year we are moving into the period when we go to total deregulation of the telecommunications market and, depending on who you listen to, there could be three extra carriers or 20 extra carriers and this government has put in place requirements on those new carriers. They also continue to work with Australian based suppliers and that is a bipartisan policy approach. We believe that kind of encouragement provides the incentive for investment, research and development within their local industry and that a similar sort of model can apply to these major offshore projects as well. It has also been a policy that has been followed in defence to a degree.

Mr ALLAN MORRIS—The point you were making there was that that was a no-cost policy. It was like the Western Australian government. It did not actually cost anymore; it was simply the government being pro-active. In fact, I might point out to you that I once heard a term used in Hong Kong about their industry policy which I have always found interesting. It was pro-active non-interventionism and it seemed to be very effective.

The point I wanted to raise with you was a bit more specific and relates to some of the equipment suppliers in projects like the North West Shelf, the trains and the other parts that go with that. We keep being told that, because these projects only have small volumes of particular sized motors, transformers or whatever, that at any one time a particular project does not justify an Australian construction and therefore Australian companies often are not approached.

Does it seem to you that, if manufacturers in your industry could see across the board as to where it is going to over the next four or five years, there may be enough volume to justify investment in Australian productive capacity or is that happening with ISONET? We keep coming across this and are told that we are too small a market, but we must be one of the world's biggest markets in oil and gas development. It always seems puzzling to me that we do not seem to get that critical mass to actually justify it.

Mr Wolkowicz—The problem with project work, particularly large projects, is the problem at the end of a large project. What do you do if you do not have another big project lined up? You have got a mass of people that you just do not know what to do with and, when you are dealing with major projects, it is not guaranteed that even if there is a market you are going to win the next project.

Consequently, even for large companies individual projects tend to be lumpy. As there is a lot of money involved, it is very difficult to actually have a major investment here to sort of look at the world. The major research and development is done overseas and is limited to a reasonably small number of large companies. The answer that I see to that is—and one has to acknowledge the fact that the multinationals have this development—to combine the two, namely that, for the designs which I heard being discussed here before, you bring in people from overseas to work with local people and give them the experience. Then, when the project is finished, unfortunately unless there is another big project in the pipeline for that particular company, the key people would go back to wherever they came from.

I think this was the comment that Mr Forrest made before, that you gradually build up the expertise in Australia, depending on the demand. If we do not have the support for major investment, research and

development—and we are talking about really big money—we can tap into this technology. There was talk about the technology of mobile platforms and so on. Doing a bit of marketing, as Ms Gambaro pointed out, I have some literature to show that one of the companies that I support actually has a system for mobile platforms which can be tapped into. But it would be on the basis that people would come here, work with the local company and when that project is finished, unless there is another big one somewhere in the pipeline, the majority of these people will go back to where they came from.

Mr FORREST—I am interested in that in that point. I believe in the process of starting small and don't run flat strap until you can. I am wondering if you can give us some insights on how we can better measure local content? Reference is made in your submission to telecommunications and defence contracts. They have started off small. I have a manufacturer in my electorate way out in country Victoria, who makes the rims now for military motor vehicles. He started off small; he did not dive in quickly. That will develop and so will the employment. Is there a better way to measure local content so that we actually target starting small better? Have you any suggestions along that line?

Mr Wolkowicz—Yes, I do. Instead of talking about local content, what you need to talk about is the added value. If you get a component from overseas—and at the moment, to the best of my knowledge, when it is amalgamated with some other work in Australia it is treated as a local content part—and you look at the added value to it, then you actually come up with the actual Australian part of that project.

Mr Gosman—It also touches on the point of to what extent Australia is prepared to drive those people who are investing in Australia to provide ancillary benefits and you made mention of that company making the rims. I think there are probably lots of examples out of telecommunications and defence where relatively small operations have been set up. Because the overseas primes have been required through partnership for development commitments—or whatever is applied—to look at developing value adding in Australia. I think the submarine project is a very good example.

Mr ALLAN MORRIS—No, it is not. We had a local prime, that was the big difference. They were required to be local primes, not overseas primes and that is the difference. In all of the offshore oil projects, the prime is offshore.

Mr Gosman—Yes. That raises an issue that is of concern to our members in the electricity industry. They have been supplying the various utilities. Now we see deregulation and privatisation within the utilities and I am not arguing about that. For example, looking at Victoria the distribution utilities are essentially US-owned. They have in the past received their supplies from Australian based suppliers and now there is a risk that any future investment is going to be driven and designed in the US, done by US consultants with very limited exposure to Australia and that the Australian suppliers will not have any opportunity to effectively even tender. The specifications will change from being Australian specifications to being US specifications and that is of real concern to the association.

Mrs JOHNSTON—Am I correct in interpreting from your earlier answer that AEEMA is quite keen on developing alliances between Australian companies and perhaps even overseas companies or developers? And, if I am correct in assuming that, could you outline to me what your organisation has done so far to encourage that and perhaps you can take it a bit further?

Mr Gosman—We have essentially done it a policy level. We have been lobbying for the various measures to be put in place that will encourage that to happen. I mentioned before there is the partnership for development program, which has encouraged companies like Nokia to invest in an Australian company ERG, which supplies a whole range of radio communications equipment, is Perth based and is now exporting. Toshiba works with one of our Penrith based companies which is now exporting parts for Toshiba work stations. We have worked at the policy level in getting those frameworks in place which encourages the companies to work together.

Mrs JOHNSTON—You referred to the North Sea gas explorations. I do not think you used the word ‘subsidise’, but you did infer that the British government was very helpful in getting those things going. Is it your view or the view of your organisation, that governments should provide more infrastructure in the form of tax deductions perhaps? Or would you like to outline what role you see the government should play in helping the development of these industries?

Mr Gosman—In many ways Australia has a resource that many people want access to. We seem to be shy about saying, ‘If you want to make use of our resources or make use of our infrastructure, you should be looking towards some longer term benefit for Australia.’ That is the approach that the United Kingdom and Norway followed. They said, ‘If you want to get access to our oil and gas depots, we are going to expect that not only are you going to be investing, but you are also going to be looking at developing our local capabilities.’ Australia seems to be shy about doing that across a whole range of areas and we have constant battles with our colleagues in the Department of Foreign Affairs and Trade over those issues.

Australia should be saying that, if they want to invest in some of these offshore locations, we do expect certain levels of local content to be obtained with local suppliers. Secondly, there is potential scope to make greater use of the tax system in terms of encouraging. We have had the infrastructure bonds that have just finished. I also think in terms of encouraging increased exports, if we were to have a differential tax system that actually taxed export income less—which also leads into the issue of the GST—you would find that would be a great encouragement as well.

We are in the process of completing our submission to the Mortimer inquiry into industry programs. We have had a consultant look at a number of overseas countries. When you look at Singapore, Taiwan and Korea—and particularly Singapore—40 years ago they were swamps and now their GDP is ahead of Australia per head. They have made major use of pioneer tax concessions to attract investment. One of the things I can mention is that Hewlett Packard exports \$100 million worth of electronic products out of Australia, which makes them about the fifth largest exporter of electronic products in Australia. They export \$6½ billion worth of product out of Singapore. The encouragement for them to put that investment into the disk drive factory in Singapore was because they got a ten-year tax break. Since then they are putting in a whole lot more investment into Singapore. When you make the comparisons between the two countries, it shows you what a bit of pro-active government policy can do.

Mr ALLAN MORRIS—I have one more question and I am mindful of the time. It is a question of intellectual property. One of the complications that we have had in industry for the last 200 years has been that most of our technology has been overseas owned with the overseas rights. I think this is particularly relevant in your industry and even more so into the future. We have just heard about how we are using

Norwegian consultants on the North West Shelf project—a country a quarter the size of ours is acting as our consultants. On the whole question of the flow and control of the marketing and export of intellectual property rights, can you tell us how that is affecting both aspects of your industry across the board, because it applies both in the energy field and in the electronics field?

Mr Wolkowicz—The people who own the intellectual property have the leverage to actually dictate who should do the work. You will find in many instances, and I heard a comment here, that Australian companies are reluctant to form joint ventures so they do not move in that way. In many cases, the people who own the technology are reluctant to pass it on to Australian companies. They feel they have put a lot of money in it and they are not going to share it around. I think it is important that, if we want to develop the technologies here, we do what everybody else around us does.

I was involved in some major projects exported from Australia to the South-East Asian market. There it is just mandatory to use local people. You cannot go in there without forming joint ventures by government regulation. Here we say that perhaps this is detrimental, that we will not have the competition. But some form of insistence that Australia takes part in should be made by the government to be able to tap into that. We are just leaving the door wide open.

In my opinion, the government is letting the manufacturing industry down in Australia. Even if you remove all the impediments, you will not have a level playing field because the companies offshore are so big that they will just swamp us here. You are not in the same league in many areas.

CHAIR—I just wanted to follow up that aspect of government intervention. You mentioned in part of your submission that you see a role to insist that Australian companies be the prime contractor. Wouldn't that interfere with the competitive tendering process if that were the case?

Mr Wolkowicz—If you are referring to the earlier submission, I had better ask Mr Gosman to answer that one.

Mr Gosman—I think we made the point wherever possible. We would maintain that strong preference for Australian companies being the prime contractors on the basis that they have a greater knowledge of what the local capabilities are and also a greater knowledge of the environment that they will have to operate in. Yes, we would still maintain a strong preference for that policy.

CHAIR—Certainly, in many instances, they may have a greater knowledge, but the competitive tendering process is meant to open up that process to the best possible competition and the most competitive price. If you are going to stipulate that each prime contractor has to be an Australian company, wouldn't damage the intense competitive pressure?

Mr Gosman—I think you would find that there is more than enough Australian companies that have the capability to prime that you would not be doing away with the competition. If you really wanted to look at the structure, you could look at some of the kind of structure that happens with some of the defence contracts, where you will have an Australian company that takes a majority ownership but they will have significant offshore investment. It still then retains that degree of Australianism.

Mr ALLAN MORRIS—It is pretty intense competition too.

Mr Gosman—Too much competition in the defence area.

Mr ALLAN MORRIS—JORN is in trouble because of it; frigates are in trouble because of it. We actually pushed the price too low.

Mr Gosman—Yes, fragmenting the industry capabilities.

CHAIR—As there are no further questions, I thank you for your attendance and for responding to that initial submission. I wonder if, after you have concluded here, you would not mind having a talk to the secretariat about your new role. We can then make contact with you, and if you are able to provide additional comment to the committee that would be helpful.

[11.54 a.m.]

McLACHLAN, Mr David John, Chairman, ISONET Limited, PO Box 130, Deakin West, Australian Capital Territory 2600

NEIL, Mr Christopher Henry, Executive Director, ISONET Limited, PO Box 130, Deakin West, Australian Capital Territory 2600

CHAIR—I welcome you here this morning and thank you for appearing before us. Committee proceedings are recognised as proceedings of the parliament and warrant 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 or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of parliament. The committee prefers 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. I invite you to make an opening statement before we commence with questions.

Mr McLachlan—The Industrial Supplies Office Network, through the auspices of ISONET, made a submission to the earlier round of the committee on 6 September 1995. I believe that is the paper for which we will now present. The thrust of that submission was that the ISO plays a valuable role in introducing project developers to Australian industry but should not be regulated or legislated to provide that role in case the ISO is seen as a policer or a scrutineer of government policy. Credibility of the ISO relies on it being able to provide independent advice and to respect the confidentiality of that advice where required to do so.

Our primary function, and the main objective that we pursue as ISONET, is to provide the opportunity for Australian industry to be able to compete for every element of business development or manufacturing that occurs in Australia. We do this through an industrial suppliers network that encompasses all of the states and territories of Australia and includes New Zealand. These matters have been highlighted in the submission but I notice in the recent papers that the terms of reference of your committee have changed a little and have become tighter. I would like to address each of those areas of your terms of reference in a very simplified way.

With regard to the level and nature of participation by Australian industry, we do not really contribute to a complete understanding of that requirement. This is predominantly because most of the information we provide is confidential unless the person to whom we have provided that information authorises disclosure and because we do not have a total overview of the full range and spectrum of Australian industry. We can only go into those major projects in particular when we are invited to do so. It is becoming more and more the case that we are being invited into major projects at an earlier stage.

If we talk about the net benefits to Australia of such projects where there is greater Australian industry participation, there are some figures now going around from an earlier study done by Professor Jensen of the Queensland University, which show that, for every million dollars of import redirected to Australian industry, about 28 man years of work have been either created or saved. There is an additional \$280,000 in taxes and charges available to government, there is another \$255,000 of extra consumer spending

occurring throughout the nation and about \$230,000 is saved in welfare spending. A similar survey has recently been undertaken in New Zealand and a comparison of the two shows some compatibility between the figures.

The third term of reference is the capacity and the capability of Australian based companies to participate in major infrastructure projects domestically, regionally and globally. There is no doubt that, when given the opportunity, particularly with assistance to form consortia, Australian industry has demonstrated that it can supply, despite some preconceived ideas that it does not have the capability.

I draw to your attention the Anaconda Nickel autoclave in Western Australia for the Murrin Murrin project. It was to be imported offshore but, through the ISO auspices, we have been able to get the Australian Submarine Corporation to work with Anaconda Nickel. Some \$30 million worth of work has been undertaken through that that would normally have been imported. In addition, there is now a further \$60 million worth of capital equipment associated with Korea Zinc to be provided in Australia which was to have come from offshore.

We have been running in the last two years, starting under the previous administration, a Support for Australian Suppliers Program. Over \$540 million worth of work has been indicated as being the potential for Australian suppliers to produce. Some of that has been concluded. There are certainly runs on the board but there is the potential for another 40 per cent of that to come into Australian industry, giving us about \$200 million out of that that would go to Australian industry. The ISO and the ISO network were also involved heavily in defence projects such as JORN, Transfield ANZAC ships and the minehunter on a fee for service basis in those three cases.

On the key access points for Australian participation in major infrastructure, I believe it is incredibly important for Australian industry to get the best benefit. If the ISO is involved at the earliest possible point in a project, particularly during the conceptual, design and development stages, we can show to all parties involved the major benefits to the project director and the project firm of participating with Australian industry. We are directing all of our inquiries towards their bottom line to show them the whole-of-life costing benefits that come from involving Australian industry at the earlier stages particularly so that, as we heard in the earlier case here, the Australian supplier does not get written out because of an overseas specification.

Finally, on the policy and the mechanisms that could be adopted by government to enhance national benefits participation for the major projects, we are finding now that the policy by-law process, which has recently come into being, is providing a very good medium for Australian industry to be involved. At the same time, it gives some reward to the industry that goes offshore after having, through the ISO structure or any other structure, exhausted the availability of Australian capability to present that.

The ISO, through ISONET and the national network of ISOs, is presently developing an industry capability database, which will be electronically linked throughout the nation. It will provide value added information on Australian capability to industry on a free basis, acknowledging the confidentiality of industry's inquiries. I believe the database will also help to provide the opportunity for project developers—particularly where a capability does not exist at the moment but where there is a consortia or other alternative arrangements in partnering, clustering or any other structure of that kind—to work through the ISO to bring

together a capability to allow Australian industry to participate, particularly in the major projects where the biggest returns are.

CHAIR—I would like to explore the role that you played with the North West Shelf national liaison group. Maybe you had a role in the Oil and Gas Consultative Group as well. Could you elaborate on the role you played and how you see your role in the future with regard to any involvement in groups like that, particularly in the early stages of a project's development? How would you promote the services of the Industrial Supplies Office to the developers?

Mr McLachlan—In the earlier stages of the involvement, particularly in the north west, the relationship occurring there was down the west coast into the ISO in Western Australia. I do not believe that the relationship was a very healthy one because the ISO was, at that stage, trying to not so much inflict but press the North West Shelf development to look at Australian industry capabilities.

I think it was accepted, and we have heard comment today, that the engineers involved in that had seen the equipment they wanted to use in some other overseas location. They knew what it did, they knew how available it was, and they could go down that path in their development, with the costs associated with it, without having to look at the fabrication and the structure of Australia to be able to get it up. Then they had to go through the risk side of that development.

When the comment came out—I think it was recommendation eight in this area—it was seen as an imposition on the mining industry, in particular in Western Australia, to have to involve itself with the ISO. To that extent, a reluctance and an adversary situation developed between the two.

Fortunately, that is now water under the bridge. There has been very good development occurring between the oil people in Western Australia—Woodside, in particular—and the ISO. There has been a continuing development of a very sound relationship between the two. Woodside Petroleum is using the auspices of the ISO to get value-added and Australian industry capability. We are pleased to see that development occur.

We will continue to work with the mining companies, and through the Mining Council of Australia, to promote the work the ISO can do for project developers in that region or any other region in Australia. I believe that what has happened with Anaconda and what is happening with Korea Zinc, where we have put consultants funded through federal government grants into those project developments, is showing to the Mining Council and to the mining industry that the ISO has a good service to provide. It is a confidential service; it is based on value for money to the mining industry and to the project developers. We continue to promote that. We take every opportunity that we can to speak to mining organisations.

We launched a proposal where we put an engineering consultant into Anaconda and they picked it up. We did a similar thing with Korea Zinc up in Queensland. We will continue to do that; pushing forward the services of the ISO on a purely acceptance basis from the industry; making the point that we are not there to regulate government industry, we are not there to report on government industry policy or to ensure that we are the scrutineer of the way in which that mining company is doing it. The point that we keep making to the

major project developers is that, irrespective of what the commercial confidentiality is or any of that matter, we would like to have those consultants in there right at the early stages of the development, so that we can help them while we are at the same time helping Australia industry.

CHAIR—I just take one little point that you made earlier in your explanation there. That was the comment about engineers selecting equipment for some of these projects. Is there a bit of a culture amongst the engineering fraternity for looking at the quickest solution rather than an Australian solution? Is that possible?

Mr McLachlan—There is some merit in that, Mr Chairman. It all depends on where the engineer comes from in many cases. If he has worked on the North Sea Shelf, there would be that predisposition to look at something that he is familiar with. If you come to Anaconda, Anaconda has moved into a whole area of new technology in Australia with the way in which the autoclaves are being developed. We have been able to convince the Australian engineers, who had seen what had happened in Canada where they wanted to pick up that technology, the merits in going down the path that we have. We were able to do it because we were in there early.

Mr Neil—Mr Chairman, in your earlier remarks you asked about our involvement in the previous study of 1989. The ISOs are state based and state funded organisations and ISONET has only been in existence for two years. ISONET overlays the national coordination element over the ISO network. We are now finding that, because there was some suggestion that there may have been parochial attitudes within the ISOs in the past, ISONET is now dissolving that parochial attitude and we are able to get a more national focus. The major project proponents are now more willing to deal with the network because they know it is a national network, not a state based network.

CHAIR—That is a good point.

Mr O'CONNOR—I would like to ask about the effectiveness of the consultants in those two projects that you mentioned.

Mr McLachlan—What we tried to do in the ISO structure is see what return we get on the investment. For an investment of about \$135,000 a year in the case of Anaconda Nickel, we will pick up about \$40 million of Australian industry involvement and, in the case of Korea Zinc, it is in excess of \$60 million. That has only come about by virtue of the involvement of the ISO consulting engineer in those two projects.

Mr O'CONNOR—That is a fairly substantial return on a low investment as far as Australia is concerned.

Mr McLachlan—Yes.

Mr O'CONNOR—Is the ISO still pursuing their 'lean and mean philosophy', as I have heard it expressed before in organisational terms?

Mr McLachlan—Yes, it is. The ISOs are all funded by the states, as you are aware, in each of the individual cases. There has been some federal government money applied over the past couple of years. In the case of the SASP program, there was about \$1.5 million a year. That has now ceased. We do have a proposal, which we will put forward to Minister Moore in the near future, which will come up with an alternate funding proposal which would provide some consulting engineers to go into major projects on a case by case basis.

There is federal government money continuing for the next four years in the last budget context for the operation of ISONET as a private company and for the establishment of the electronically connected capability database. Both of those latter two cases have been agreed by the present government.

Mr O'CONNOR—How do you see the involvement of a body like the ISO being improved at a national level? You mentioned some proposals that you are putting to the minister. Are there any other areas? I have long been of the belief that this organisation and its impact on Australian involvement in these projects was underdone.

Mr McLachlan—I believe that there is a requirement for us to have the flexibility to put consultants into major projects—in particular at the national level where those consulting engineers are involved much the same as they have been at Anaconda, Korea Zinc, Transfield in the Anzac ship program and in JORN—to be able to identify those opportunities for Australian industry. They do not need to be locked in to the project for the full length of the project. They would need to come and go as the various processes of the project develop. Then you can sort of trade them off and take them into other areas.

I believe that, as a project starts to get status and it is recognised as a project of importance at a national level, then the ISO—as part of that recognition—needs to have the ability to be able to go in. I believe that the federal government does not need to legislate in any way to make that occur, but it needs to promote it. It should not be seen that the ISONET is there as an arm of government. It is there to help the project development and Australian industry.

I also believe that we need to do more, and we are moving down this particular path at the moment with Austrade, to be able to identify Australian capability that can operate in major overseas projects, particularly where overseas organisations through Austrade are seeking Australian capability for export opportunity. I believe that what we are doing now with Austrade will help us further down that path.

Mr Neil—If I may add to that answer, the role of ISO has been confusing to overseas project proponents for some time. Because they see this as being government funded, they think that we may be out there as a policeman for government policy. The maturity of the ISO network over the last couple of years has been seen in the advent of ISONET and in a couple of the major project involvements we have had. That is dispelling that myth that occurs about our involvement. That is why we keep on pushing the point that the ISO should be promoted wherever it can, but please do not legislate that we need to be in there because all that does is reinforce the overseas project proponent's view that we are there as a policeman.

We are now involved through the investment facilitation and promotion branch within DIST. We are involved as early as we can get in any project that comes up looking for major project facilitation status. We

have been able to negotiate with the Australian Customs Service that the ISO network is a prescribed organisation for the purposes of tariff concessions and policy by-law issues so that the Customs Service itself is now promoting the services of the ISO—to research Australian industry—to all project proponents. That is the sort of support that we need.

CHAIR—There has been a very wide variation in the level of Australian content in many of these projects on the North West Shelf. It has ranged from 30 per cent up to 70 per cent. How does ISONET view that? Do you have a formula or a methodology that might indicate how there could be such a wide variation? Do you have a view on what the level of Australian content is?

Mr Neil—We do not benchmark where we want to get to. In all our work, we think that anything that adds value beyond the original intention of the project proponent is better for Australian industry—anything that adds value in Australia. If we can take them from five to 10 per cent, that is a benefit. If we can take them from five to 50 per cent, that is of more benefit. We attempt to increase the value-adding in the country as much as possible, but we do not have a particular figure that we aim at.

The general experience that we have had with the defence projects, of which my chairman spoke before, and also the major projects that we have been involved with over the last decade is that a five per cent increased value in Australian industry is easily achievable in projects. That has been done without dedicated consultancy research for these firms. As we increase our involvement—as we have seen with the Anaconda Nickel and Korea Zinc proposals—far more than five per cent is easily achievable.

CHAIR—So you start with that figure as a base and work from there to try to achieve a greater level of Australian content input?

Mr Neil—Yes, and when you are talking about projects that are in the billions of dollars, five per cent of that being returned into Australian industry is quite a significant benefit.

Mrs JOHNSTON—I wish to return to the subject of promotion that you talked about earlier. How much awareness is there at the moment of the role that ISONET plays, or can play, in helping developers out in the community? That is apart from the fact that the more successful you are—as with the Anaconda deal—the better you will be promoting yourself without huge outlays in funds because people will come to you.

Mr Neil—When we go to forums—we are continually promoting ourselves in forums, in the media, or wherever we can get the opportunity—we find that within Australian industry, the ISO is well known. The role of the ISO is becoming increasingly understood. The area in which we do not have great visibility and great understanding concerns the major project proponents who are often offshore investors. We need to increase our involvement with them at the project facilitation—investment facilitation—groups. We also need to work with Customs to ensure that it directs people to us so if that, if it is appropriate for the ISO to assist, we are given that opportunity.

Mrs JOHNSTON—So at the moment the level of awareness amongst overseas developers or major project developers is pretty low?

Mr Neil—Yes.

Mr McLachlan—With overseas people, it is in particular segments though. For example, all defence tender documentation now refers to the ISO structure and to ISONET as to where you should be directing your inquiries in regard to Australian capabilities and Australian arrangements. Certainly, we are doing that with a whole range of government departments—through a series of MOUs to use the ISONET—which are tendering for equipment. As for dealing with government, again, in the Commonwealth government procurement guidelines, which are in draft form before the government at the moment for approval, there is quite a significant part in there. We have got an ISONET page on the Internet for overseas people to look at. We take whatever opportunity we get in any forum whatsoever to promote ISONET as being capable of producing Australian industry.

Mr O'CONNOR—I was interested to note that in section 4 of your submission you stated:

The ISO recognises that corporate objectives on the part of project developers or their prime contractors may not include, or may even be counter to, seeking to maximise Australian industry involvement in the project.

Would you give us some examples of where that has occurred?

Mr Neil—I cannot give you specific examples with company names or dollar values. It is a general experience that, where there are counter-trade deals and where an overseas project proponent—as part of his company—has major manufacturing arms, he is not predisposed to looking for Australian industry to produce his goods for him. He is going to bring them in from offshore because he knows how much it is going to cost him. He does not know how much it is going to cost if he buys them from Australian industry and he is not really interested in finding out because he has his own corporate policies to support his own manufacturing base.

Mr McLachlan—Part of that was covered by the previous witness's statement that, particularly where there was overseas finance from an organisation, that finance normally gets traded off into the same area of their capability.

Ms GAMBARO—Extending on from Mrs Johnstone's question, I note that in the last page of your submission, before the summary, you say that many project managers see no benefit in using the organisation. Have you inquired as to why? Have you delved deeper? Have you done surveys on the main reasons given for not using your service?

Mr Neil—It is a matter of education. They do not know what the service can provide them and they do not know what value it can give them, therefore they are not interested in finding out what we do. When a project is developed for Australia, normally they have got themselves a bankable document for their own finances. They have built up a budget for the project. That budget has probably been budgeted on the basis of their own country's or their own company's funding. So they already know how much it is going to cost them. When they come here, they are not necessarily predisposed to go out to look for the most competitive source of supply in Australia because they may not believe there is one. There is a myth about the capability of Australian industry to support competitive major projects.

We have done surveys in the sense that we have gone back to the major project proponents and said: 'Why won't you let us help you?' The usual answer has been: 'Because we don't think you can help us.' Until we can get in there to get the case studies and histories built up—as we have now with Anaconda Nickel and Korea Zinc—

Mr McLachlan—And with JORN and Telstra and a whole range of other areas.

Mr Neil—Until we can go back to people to say: 'Look, we can do it, and we have shown that we can do it, give us a chance.'

Ms GAMBARO—So you are saying that it is an educational process, as well as getting some runs on that board?

Mr Neil—Yes.

Mr McLachlan—If I could just go on from there and offer this example: Ericsson, in the Telstra project, conducts what we now use as a model—and we have been doing it quite successfully in Victoria—in which we run a workshop where we will get a major project operator to bring in a range of items that he presently has to import from overseas, but which he would like to be made in Australia. Ericsson did that. We put the items out and invited about 150 Australian manufacturers to come to have a look at the range. The specifications were there and, on the one day, they picked up \$11 million worth of work from that demonstration, and it is still ongoing. We have just done one in the same way down in the La Trobe Valley with the power producers in the valley. Again, such an exercise is exposing the work of the ISO in bringing together these manufacturers, a whole range of them, to the major project deliverers. That has been very successful.

Mrs JOHNSTON—I will follow on from that if we may go back to what the previous witnesses said. I asked the question about government intervention and their reply seemed to be that that would be a very good drawcard, particularly in regard to overseas developers. What you are actually saying, if I read you correctly, is that government intervention is not really the impediment that it has been made out to be in order to attract the local contents to be done in Australia and, indeed, the whole development. Is it the case that what you are really saying is that, with a little bit of awareness and good will to show that we can do it and that we have got the capabilities, we really can go way into the free or open market without government intervention? That is a long question and maybe you can just say 'yes' or 'no'.

Mr Neil—Yes.

Mr McLachlan—I was going to say 'yes' or 'no' but I would like to make a comment on that. I do not think that anybody has any doubt at all that the person who is delivering the project to his shareholders wants the best value for money. You can have all the government intervention in the world but, if he is not going to get the best delivery of money and outcome to his shareholders, he is not going to be interested. The point that we keep making in the ISO and throughout the whole structure is that we want to deliver the best value to the bottom line, both for the fellow who is doing it and for the people that can do it in Australian industry.

We will continue to promote that. We want competitiveness. We want Australian industry to be competitive in terms of price, in terms of specification, capability and quality, and also in terms of timeliness. What you have heard this morning from the previous witness is the typical reluctance, and conservatism of Australian industry, towards getting out there to really fight for what they want. Faint heart never won the damsel, and that is basically what it is all about.

Mr Neil—If I could just add that if government is going to say: ‘You must involve Australian industry’, that immediately raises in the mind of the project proponents: ‘Why should I? What is wrong with Australian industry that it cannot compete?’ Therefore, we would prefer a far more subtle promotion of the concept through the policy by-law.

Mr McLachlan—The policy by-law is very, very good.

CHAIR—I think that on that positive note we might draw the matter to a conclusion. I want to thank you for your patience this morning and for being here as witnesses to the inquiry. I thank you for your positive suggestions. If we require any further information, I am sure you will feel free to provide it to the secretariat.

Luncheon adjournment

[3.32 p.m.]

BARNES, Mr David, Assistant Secretary, Exploration and Development Branch, Petroleum and Fisheries Division, Department of Primary Industries and Energy, Edmund Barton Building, Barton, Australian Capital Territory 2600

KJAR, Mr John Roland, Director, Development Section, Petroleum and Fisheries Division, Department of Primary Industries and Energy, Edmund Barton Building, Barton, Australian Capital Territory 2600

LANG, Ms Jeanne Maria, Senior Officer, Development Section, Exploration and Development Branch, Petroleum and Fisheries Division, Department of Primary Industries and Energy, GPO Box 858, Canberra, Australian Capital Territory 2600

LAYER, Mr William, Acting Manager, Petroleum Taxation and Analysis Section, Department of Primary Industries and Energy, Core 3, Wing 4, Level 5, Edmund Barton Building, Barton, Australian Capital Territory

TURNER, Dr Alison, Acting Executive Director, Resources and Energy Group, Department of Primary Industries and Energy, Edmund Barton Building, GPO Box 858, Canberra, Australian Capital Territory 2600

CHAIR—I welcome the witnesses. The committee's proceedings are recognised as proceedings of the parliament and warrant 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 or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of parliament. The committee prefers 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. Would anyone care to make an opening statement before we begin questions?

Dr Turner—Thank you, Mr Chairman, for the opportunity to meet with you and your committee to discuss our submission and any associated issues. I would like to briefly outline four important matters discussed in our submission and then discuss those matters in slightly more detail.

Firstly, the Department of Primary Industries and Energy has an important role in the development of Australia's petroleum resources from the offshore areas. Secondly, the oil and gas industry makes a major contribution to the Australian economy, and this is expected to continue. Thirdly, the industry has to operate in an internationally competitive environment. This applies at all levels of the exploration and development chain from competition for funds to competition for suppliers of its goods and services through to competition for markets for its petroleum products, particularly in relation to gas.

Similarly, the service industries operate in an internationally competitive market. Any Australian imposed impediments to the industry will have a direct and adverse impact on the industry by reducing the benefits to the community as well as by decreasing activity levels in Australia.

Finally, during the 1990s, both governments have adopted the objective of full and fair opportunity to local suppliers for the provision of goods and services to the oil and gas industry. They have also considered that this objective can best be pursued by measures to help facilitate the market to operate effectively, rather than by legislative or regulatory measures.

Firstly, I turn to the role of the Department of Primary Industries and Energy. The Commonwealth has jurisdiction in and legal title to the petroleum resources in the offshore areas beyond the coastal waters boundary. These areas presently contain approximately 90 per cent of Australia's known petroleum resources. The role of my department is to provide advice to the Minister for Resources and Energy in carrying out his statutory responsibilities for that area under the provisions of the Petroleum (Submerged Lands) Act, and in the development of national petroleum policies.

The Petroleum (Submerged Lands) Act provides the mining code that regulates the exploration for and development of that petroleum. A primary responsibility of titleholders under that act is that these activities be carried out in accordance with good oil field practice. This means that titleholders should seek to minimise environmental impacts and impacts on other users, should minimise risks to health and safety and should recover the petroleum where it is commercially viable to do so.

The department in cooperation with the relevant state departments has developed policies and programs that seek to achieve those objectives in the most effective and efficient manner. In carrying out these responsibilities, DPIE, the states and the minister consult widely, including with the Department of Foreign Affairs and Trade on treaties and conventions, with the Department of the Transport and other departments responsible for environment and fisheries, with Treasury, with industry departments and with Aboriginal agencies where relevant.

Secondly, oil and gas make a major contribution to this economy. Australia has a strong and vibrant oil and gas industry that makes a substantial contribution. Currently, the annual value of production is \$8 billion. Commonwealth and state resource taxes contribute about \$1.5 billion per annum, and the industry directly employs between 4,000 and 6,000 persons.

The recent report by ABARE, summarised in our submission, assesses the direct benefit to the economy from the industry over the period 1980 to 2010. The net revenues produced from petroleum production expressed in 1995 prices and discounted at a risk-free rate of return is estimated to be between \$215 billion to \$255 billion. Of this amount, approximately \$50 billion is received by governments as resource taxes. At least a similar amount will be received by the Commonwealth from company tax, import duties and other charges with the balance paid as dividends to shareholders.

There are also major indirect benefits from the industry which arise from the flow-on effect of these investments. These benefits arise from the market opportunities for local industries to supply goods and services to the industry. ABARE estimates that each \$1 million increase in the value of oil and gas production generates additional output in the rest of the economy of between \$0.8 million and \$1.4 million. Further, the increased production will also provide the basis for new industries, such as in minerals processing.

The industry operates in an internationally competitive environment. A range of factors operate to affect the decision on why companies decide to invest in Australian oil and gas exploration and development. Some of these are under Australia's control, such as the regulatory and taxation regime. Some are company specific. Some, such as oil prices, are determined at a global level while others, such as how much oil and gas we have actually got, are predetermined. But others, such as the perceptions of prospectivities, will change over time in the light of exploration and development activity.

In order to be able to optimise the benefits from the exploration and development of its petroleum resources, it is important that Australia ensures that the policies and programs under its control are effective and appropriate in comparison with other sectors of the economy and particularly in comparison with overseas countries. The oil and gas industry is highly capital intensive and projects generally involve massive amounts of capital expenditure. Impediments at either the capital investment or the operating phases of a project have the potential, therefore, to cause major flow-on costs to the projects and, ultimately, to the Australian community. In some cases they could make projects unviable.

Commonwealth and state governments are seeking to remove impediments to the effective operation of all markets both in Australia and internationally. Australia is an acknowledged leader, especially in the WTO and APEC fora, in the push to remove tariff and non-tariff barriers to trade. This position reflects the substantial benefits that can accrue to Australia from competitive markets.

These policies have included measures to increase the level of competition faced by the oil and gas industry domestically. With respect to full and fair opportunities for local suppliers, consistent with the policies just discussed, governments of both political persuasions have taken the view that Australian suppliers of goods and services to the petroleum industry should be provided full and fair opportunity to bid for contracts to supply the industry requirements. Further, government has also taken the view that its objective can best be pursued by measures that help facilitate the market to operate effectively, rather than mandating levels of local content, which can result in increased costs and inefficiencies in the industry.

One means to assist a competitive market operate in Australia is by the exchange of information between the oil and gas industry, and the potential suppliers of goods and services to that industry. The Industrial Supplies Office Network, established in each state, has been a very effective means for the exchange of information of available opportunities for the supply industry, and for the petroleum industry to be appraised of the capabilities of the supply industry. In addition, the Oil and Gas Consultative Group, consisting of the petroleum industry, supply industry, union and government representatives, is also an important fora.

The petroleum industry has made some very welcome strides forward since the previous inquiry on the North West Shelf project in promoting the policy of full and fair opportunity. APPEA, who I understand you interviewed earlier today, and at least one of the major players in the petroleum industry, Woodside, have released local content policies. In addition, APPEA has published a directory of supplies of goods and services and publishes annual information on potential developments. These are good indications that industry can be relied upon to progress the use of local content, without the use of regulatory measures.

The industry also has an impressive record on sourcing its goods and services within Australia. For

example, the West Tuna and Bream B platforms recently installed in Bass Strait at a cost of over \$1 billion had local content levels in excess of 80 per cent. Local content in the various stages of the North West Shelf project generally exceeded 70 per cent. As some components cannot be manufactured in Australia, the levels of local content actually achieved, compared with what was achievable, were very high.

The Commonwealth releases areas offshore of Australia for exploration by the oil and gas industry, and the next release is due for April 1997. Information provided to prospective bidders will include information on the policy objective of full and fair opportunity, and the roles of the Industrial Supplies Office and the Oil and Gas Consultative Group.

In addition, the state ministers for energy are currently considering a recommendation from the Minister for Resources and Energy to adopt a guideline for the process for the grant of a petroleum production licence in the offshore areas under Commonwealth jurisdiction. This guideline is expected to be issued to industry in April. It has the support of industry and is designed to assist companies obtain timely approval of their proposals for offshore development. The guideline refers to the government's commitment to the principle of full and fair opportunity for Australian suppliers, and in meeting with companies on their development proposals, government officials seek advice on industry plans to give effect to that objective.

In conclusion, Mr Chairman, the department is very interested in the matter of local content, and is aware of the significant benefits the petroleum industry has and can bring to the Australian economy. We have sought to work with the industry, and within government, to improve the flow of information and facilitate opportunities for local suppliers. A range of other programs set in place by other agencies are consistent with that objective. Governments from both political persuasions have not sought to impose policies that increase costs, are anti-competitive or impose a regulatory burden on companies.

Thank you, Mr Chairman, and we would welcome any questions on these matters in our submission.

CHAIR—Thank you very much for that submission. I want to go back to the government's response to the original 1989 report. One of the messages in that report was the need for uniformity in the approach to Australian industry involvement in major projects between federal and state governments. Can you just outline some of the progress that might have been achieved in that coordinated approach and whether various levels of government have been cooperating and working together with that approach since that original report was tabled?

Mr Kjar—I will answer at least in part. Since the House of Representatives inquiry back in 1990—

CHAIR—Yes, *A sea of lost opportunities?*

Mr Kjar—A range of developments have occurred over that period of time. Dr Turner has outlined most of those broadly in terms of the way the government operates, both within the department and the role of the department in working with those other agencies. Agencies such as the Oil and Gas Consultative Group have been established. The role of the Industrial Supplies Office has been enhanced significantly. The cooperation between the Commonwealth and the states in projects within Commonwealth jurisdiction has been significantly enhanced. All of those developments are working in areas where the Commonwealth has jurisdiction and responsibility and is addressing this question of local content.

Mr FORREST—Just on that, at the Perth hearing we heard a statement: ‘There is virtually no activity that I am aware of in Canberra. In fact, there is negative activity.’ Why would somebody make that statement recently if, as you advise us, there have been improvements since that report?

Dr Turner—It is basically impossible to comment on that without knowing what they were referring to. We do not know who it was or the context in which that was said. As Mr Kjar outlined, there has been a range of activities, so I cannot comment on why they would feel bound to say that.

Mr FORREST—It is on the public record. You should peruse it. We want to be satisfied that things have, in fact, changed since 1989. Perhaps you could peruse the evidence there and comment on it.

Mr Kjar—We can take that on notice and provide an additional report back to the committee.

CHAIR—I think Mrs Johnston had a further point on that.

Mrs JOHNSTON—It is very much along the line just put by my colleague. It is important that you do give us an answer to that. If you cannot do it today, perhaps you can provide it to us. There were some very grave misgivings by the people in Perth, from the department as well as from private industry. They certainly were not in any way prepared to concede that there was some assistance coming from Canberra. Indeed, they were saying that there was virtually none.

Dr Turner—The only thing I can comment on is that about a year ago the minister, with the minister for resources in Western Australia, set up a consultative committee on LNG developments. Part of the terms of the reference was to look at how we can work together in facilitating local content in major project developments. That has been under way and, to my knowledge, has met on several occasions. That has been a subject.

Mrs JOHNSTON—I could just follow on from that perhaps. I think we are talking in the right direction. If you have had several meetings or some discussions with them, have the results of those discussions not been made public yet? Or are you still at the negotiation stage? We also heard earlier from the previous witnesses that, in the case of Western Australia, they are able to run their department with the maximum of three people and are able to assist the industry, particularly in terms of supply questions and things like that. Why is there nothing forthcoming from the federal department?

Mr Kjar—I will at least add part of the answer and that relates to the role of the Industrial Supplies Office. That is a Commonwealth and state initiative, together with industry funding. It is in that forum that those detailed areas of supplier capability and industry requirements are discussed and arrangements made to facilitate those sorts of arrangements which lead to the contracts. It is not seen to be the role of the federal government and this department to become involved in those detailed discussions and negotiations but really to facilitate, through such forums as the ISO and the Oil and Gas Consultative Group, at least a dialogue and the exchange of information so that the industry can make its own arrangements.

Mrs JOHNSTON—But, if we are talking about offshore ventures, they come under the Commonwealth jurisdiction. Am I correct?

Mr Kjar—They do.

Mrs JOHNSTON—So, therefore, should your department be at least at some stage involved?

Dr Turner—Yes.

Mrs JOHNSTON—This is where I am coming from: from what we have heard in Perth—and I think John would agree with me—it appears there was very little encouragement. In actual fact, there was nothing coming forth from Canberra, to facilitate their progress in any way.

Mr Kjar—It depends very much on whether you are talking about policies or about direct intervention. In terms of policies, we have outlined what those policies may be or are. In terms of intervention, it is government policy not to intervene and mandate or require local content.

Dr Turner—We have worked with the industry and with WA to ensure there are a number of steps in place that enable prospective suppliers to know the projects are happening and then contact the project development people and directly negotiate with them. APPEA put out a list of projects which are coming up. We raise it with the companies when they come and discuss what steps they are taking with their development proposals with us. WA also take a very keen interest in projects within WA and they will take some additional steps. So a number of things are in place which hopefully should ensure that we have good local content in many of these development proposals.

Mrs JOHNSTON—Mr Chairman, I put it to the secretary that we might be able to dig up that aspect of the discussion that took place in Perth and pass it over to the department. Could you tell me the page number?

Mr FORREST—It was the evidence from Mr Suttie.

CHAIR—We will get that transcript to you and you may be able to respond to the secretariat on that issue. Mr Kjar, you mentioned the Oil and Gas Consultative Group as being one of the initiatives in federal-state relationships and coordination in projects. But the evidence that the committee received in Perth was that the Western Australian Department of Resources and Development said that the OGCG has been completely disbanded. Is that the case?

Mr Kjar—The secretariat for the OGCG is supplied by the Department of Industry, Science and Tourism, who you will be meeting with after us. As far as we are aware, it has not been disbanded. The last meeting from recollection was in February of last year at which stage—

CHAIR—February of 1996?

Mr Kjar—Nineteen ninety-six.

CHAIR—A fair bit has happened since then.

Mr Kjar—Yes, correct. At the meeting in February 1996, that department indicated that it was

reviewing its role and participation in the forum and was going to contact agencies, departments and unions and industry about its future role in the Oil and Gas Consultative Group. With the change of government and with changes going on in the department, we have been waiting and liaising with them, but have not yet received a response.

CHAIR—From memory, the hearings in Perth were in late January and the evidence we received was that the Oil and Gas Consultative Group had been disbanded.

Mr Kjar—You would have to put that question to the Department of Industry, Science and Tourism. But, to the best of our knowledge, it has not been disbanded.

Mr FORREST—There are a large number of groups involved in this issue with the same sort of objective. There is the North West Shelf National Liaison Group, there is the Oil and Gas Consultative Group you have spoken about, there is a joint liquid natural gas liaison group and there is another unit in the Department of Industry, Science and Tourism, the major projects facilitation unit. With all this activity we ought to be making some progress. I am just worried about excessive duplication in all this. Can you comment on that?

Mr Kjar—We need to clarify some of those. I think you may have double counted the liquefied natural gas liaison committee between the Commonwealth and Western Australia. That may have been counted twice.

Mr FORREST—Right.

Mr Kjar—Within the Department of Industry, Science and Tourism, they do have a major project facilitation unit, you are correct. But as far as I am aware, that major project facilitation unit has not been requested to participate in the North West Shelf project. They only become activated at the request of the company and with the agreement of the minister. So, the relevant groups, if you like, are the—

Mr FORREST—Just run through them for me.

Mr Kjar—There is the Oil and Gas Consultative Group, the Industrial Supplies Office, and the liaison committee between the Commonwealth and Western Australia on LNG projects.

Mr FORREST—So the first two are Commonwealth established entities?

Mr Kjar—Yes.

Mr FORREST—The North West Shelf liaison group, what is that?

Dr Turner—That was disbanded, it was known—

Mr Kjar—Are you talking about the national liaison group?

Mr FORREST—Yes.

Mr Kjar—That operated back in the 1980s. It was disbanded in approximately 1990 at the completion of the third stage of the North West Shelf project.

Ms Lang—That was about 1994.

CHAIR—Apart from your responsibilities in safety and permits as a department, you mentioned in your initial introduction to today's hearing that you are also responsible for development. Do you also have the responsibility of collecting or monitoring the excise and royalties? Is that another part of your function?

Mr Layer—The department collects the royalty and we then allocate back to the state, under section 129 and section 130 of the P(SL) Act, certain amounts of money. With respect to the excise, that is administered by the Australian Customs Service.

CHAIR—So you do not have any supervisory role over it. How do you know whether we are collecting the royalties and excise that is due? Who actually monitors that? Is that your responsibility?

Mr Layer—Western Australia administers it. We carry out a audit with them once a year of the export of various petroleum product streams to make sure that the royalties are collected appropriately.

CHAIR—What about volume? Who says that that is the volume that is being extracted from that field?

Mr Layer—The Western Australian Department of Mines and Energy carries out a metering and sampling program to ensure that the volumes are correctly reported. We are going to be doing an audit with them in the next two months on that very process.

CHAIR—But the audit you would do would only look at the figures they present?

Mr Layer—What we will do is send an officer from the Bureau of Resources and Sciences to Western Australia who will actually check to make sure that the metering and sampling procedures are correct. We will have an officer on the ground to ascertain that the measurements are appropriate for the application that is so required.

CHAIR—That would be metered on each platform, would it?

Mr Layer—That would be metered for each platform and at certain collection points where royalties could be then back allocated to platforms.

CHAIR—Thank you.

Mrs JOHNSTON—How is it actually measured?

Mr Layer—It is measured by a metering gauge which is accepted as being a standard metering gauge. It technically meets the requirements of that sort of measurement. I have not seen it but it is appropriate to the particular application that is required.

CHAIR—A lot of input that we have had into this committee of inquiry has been on the estimates of local content, and they have varied tremendously, over a whole range, with from 30 per cent up to 70 per cent of the Australian content involved in some of these major projects. Page 9 of your submission referred to estimates of local content of 73 to 62 per cent being achieved in phases 1, 2 and 3 of the North West Shelf project. Are they your estimates, or are they industry's estimates? Whose estimates are they?

Mr Kjar—I can answer that, Mr Chairman. They are based on the advice that we have received from Woodside.

Mr FORREST—I would like to pursue how that is measured, actually. I understand that Woodside assign it by contract; but there would be a lot of Australian contact by secondary contractors. I used the example earlier today of a pressure vessel, where the valves might be Australian. But is it possible to know the extent of that? The percentage of Australian content could be quite large, if you took into account a second level of subcontracting.

Mr Kjar—Yes; that is correct. As far as I am aware, industry and government have not sought to go down to those levels of detail. Even in Western Australia, where they have what you might call a fairly interventionist policy on monitoring local content, they do not, as far as I am aware, go down to that level of detail.

Mr FORREST—Would you feel that I am right in my hunch there? Or can it work the other way, whereby an Australian contractor might actually source components from outside?

Mr Kjar—Our feeling would be that it certainly would work both ways, but I think we would all be guessing the net result.

Mrs JOHNSTON—I suppose I am just pursuing the point that was made by Mr Forrest; but, when Dr Turner said earlier that, in the case of the North West Shelf, the local content is generally in excess of 70 per cent, how exactly are we sure that that is all local content? For example, you might have the primary developer or producer, but then you have also got subcontractors down the way. Can you ensure, or is there some way by which you can measure, that the subcontractors down the way also have some local content?

Mr Kjar—In the case of Woodside, as I understand it, they have their local content policy, which is to source locally wherever competitive in terms of price, quality and timing. They also have a requirement in that local content policy that their subcontractors provide a similar policy for their purchase of goods and services. I suppose I am saying that the intent of all parties, certainly in the North West Shelf, appears to be to source locally wherever possible, because—as is often indicated—it makes very good sense, especially in terms of maintenance and other requirements, to have a capability in Australia to be able to handle those activities. At this stage, it is possible, but people have not sought to go down to that level of detail to determine the level of local content.

Mrs JOHNSTON—Has your department had any input into the Western Australian policy in terms of local content? Do you think that their policies are good models to follow? Could we perhaps look at that on a national basis? Or do you have other thoughts on that?

Mr Kjar—At an earlier stage of the development of their policy, we saw some drafts. The policy has been developed over several years. It has been refined and changed, maybe in response to the department's comments, maybe in response to industry or to other people. In terms of the policy, it does involve a monitoring program. As I have indicated earlier, at this stage the Commonwealth government has decided not to proceed with a formal monitoring program. However, the government policy has been directed more towards ensuring that impediments to local content are being addressed and, where appropriate, removed.

Mrs JOHNSTON—May I just follow on from that, Mr Chairman? Earlier, Dr Turner referred in her opening remarks to the Australian imposed impediments. Would you explain that a little more for me, or expand on that term a little? What exactly do you mean by 'Australian government imposed' impediments? I think they were your words.

Mr Kjar—You can have a range of impediments. One that I guess we were thinking of at the time was requirements on local content. You can have foreign investment impediments, or impediments to adopt a specific type of technology, or regulatory impediments which are inefficient. We were looking at the broad view.

Mrs JOHNSTON—Then I understand that would set the federal department slightly at odds with the Western Australian department in terms of policy development, because they are quite keen to see a high level of local content in their policy; whereas, you are saying that, if local content is an impediment to the development of the petroleum industry generally, at a national level we would like to see that removed.

Mr Kjar—I hope that I have not said that local content would be an impediment; but a requirement from the government to adopt a certain level of local content could well be an impediment. In principle, we are moving quite closely with Western Australia and other states, in that we are all seeking and would like to have high levels of local content. It is really the way in which different governments are seeking to achieve that objective.

Mr FORREST—Before we leave that issue of local content, I heard Dr Turner mention Bass Strait, and I was pleased to hear you say that. I had a question earlier, being a Victorian, on whether there was any difference. Much of the focus of evidence that we have collected is from the North West Shelf. Is there any reason why that would be what I would see as a higher figure, at 80 per cent, than some of the other figures we have been quoted? Is it different technology, or what?

Dr Turner—Yes.

Mr Kjar—In the case of Bass Strait, for the first time in Australia, they used concrete gravity platforms. They were able to use a concrete casting facility at Port Kembla, and there was a lot of work involved in that. There was also quite a lot of work involved in the processing modules on the platform, work which was done at Newcastle. The installation, obviously, would be done in Australia, and so there were only

a small number of components which needed to be imported.

In the case of the North West Shelf project, you can be dealing with a different animal, in the sense that you are dealing with, as I understand it, the world's largest—or, at least, the Southern Hemisphere's largest—gas platforms. As for the structure holding the processing modules, there is no facility in Australia for constructing such a facility, and so it had to be imported.

There are also other highly technical components for the liquefaction plant, such as the compressors; and I think the BHP people also indicated today that, in floating production systems, there are components which are generally only available overseas. So, it is partly for a technology based reason that the numbers can be so different.

Mr FORREST—How confident can we be about the figures from the North West Shelf? Woodside's policy is that that figure really only applies to parts of the work they judge can be done by Australian companies. In other words, the percentage that is being quoted to us in no way represents a total percentage of the total project up there, does it?

Mr Kjar—As I understand it, it relates to the total project. Woodside have also given an additional estimate saying that, of the components that could be sourced in Australia, 85 per cent were sourced in Australia. You can get different understandings of what local content could be; but, as we understand it, in terms of the definitions used for local content relating to contracts let in Australia, those figures that Dr Turner provided are the levels of local content actually achieved.

Mrs JOHNSTON—Is that methodology of measuring that adequate, or should it be changed? Is there a better model that could be used? Bear in mind that we do not really know how we got there.

Mr Kjar—You can always improve on these things, but there are also costs involved in further levels of detail and further difficulties and costs and time involved in that exercise. You really then need to go back and ask, 'What is it going to achieve?' and 'Are your efforts better directed towards identifying those areas where there are impediments or where you could facilitate with industry a better arrangement to ensure the maximising of local content?'

Mr FORREST—That is fine, but you need to have a handle on how serious the problem is. I will put my question in a slightly different way: what percentage of the total work that is available do Woodside say can be done by Australia? They make a judgment. It could be that all of it could be done in Australia, if we had somebody willing to make the investment. How do they make that judgment, and what percentage is it? In other words, is it 70 per cent of another percentage?

Mr Kjar—As I understand it, Woodside did a very comprehensive survey of the Australian industry and its capability of supplying goods and services for the project. On the basis of that, they identified that there would be some components that it would not be possible to source in Australia. As I understand it, that was approximately 15 per cent of the project.

Mr FORREST—So is it 70 per cent of 85 per cent, really?

Mr Kjar—No; 70 per cent of the 100 per cent is the figure that Woodside are quoting. They are really saying that they have got 75 per cent, if you like, of 85 per cent. We have got very close to the maximum amount that was likely to be realistically achievable in Australia.

CHAIR—I will move on to one final point, and that was the suggestion in your submission that there has been quite an amount of technology transfer from companies through various projects on the North West Shelf. You suggested that companies were exporting some of the technology. Can you take that a little further and give us an example of that?

Mr Kjar—As I understand it, there is a range of products which have been produced in Australia as a consequence of the North West Shelf project and which are potentially available to be exported overseas. One of those relates to what we call the Christmas tree that either sits on the seabed—if you are dealing with a subsea facility connected to a floating production storage and offloading system—or sits on the platform which controls the flow of petroleum. Australian suppliers, over time, have been becoming better and, as I understand it, are now world competitive.

CHAIR—Thank you very much for your comments and also for your willingness to answer our questions. I appreciate your time today.

[4.14 p.m.]

BACK, Mr Daryl, Director, Wood and Paper Industry Section, Resource Processing Industries Branch, Industry Division B, Department of Industry, Science and Tourism, 20 Allara Street, Canberra, Australian Capital Territory 2601

CLARKE, Ms Beverley Anne, First Assistant Secretary, Department of Industry, Science and Tourism, 20 Allara Street, Canberra, Australian Capital Territory 2601

CHAIR—I welcome you as witnesses to this public hearing. Committee proceedings are recognised as proceedings of the parliament and warrant 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 or make an affirmation. You are reminded, however, that false evidence given to a parliamentary committee may be regarded as a contempt of parliament. The committee prefers 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. Do you have any comments to make on the capacity in which you appear?

Ms Clarke—Until two days ago, I was First Assistant Secretary, Industry Division B, which is why I am here.

CHAIR—I have just been handed a document which is not a submission but a background information paper. Is this what you propose to speak to firstly, or do you wish to make a separate opening statement before we commence our questioning?

Ms Clarke—I can make a separate opening statement which deals with a number of the issues that have been raised in the background paper.

CHAIR—Proceed with your opening statement.

Ms Clarke—From a DIST perspective, the issue of local industry participation has tended in the past to focus on the petroleum development industry. We have tended to take a broader view of Australian participation. Work in the petroleum development industry tends to be sporadic, which makes it difficult to develop an ongoing capability. Much of the skills that can be picked up in broader resource development projects, for example, in the minerals processing area, can be utilised across a broad spectrum of projects, whether they be in the oil and gas industry, resource processing or mining industry. So we have taken a much broader view of the terms of reference of the inquiry.

In the department's view, the opportunity to supply into major projects is actually critical to the development of capability in the engineering and construction industries in this country. It provides opportunities for companies to upgrade their capabilities and to participate in the maintenance and ongoing support for projects. It provides companies with opportunities to enhance their project management skills, to develop new solutions to meet particular problems and often, through partnering with other companies, it gives them access to new technology. It also provides local firms with a reference site for export markets

which is often critical.

The issue is very topical because of the sheer number of projects that are currently under way. There are quite a number of projects now taking off in north-western Australia, there are some major projects in Queensland in the minerals processing area and there are a broad range of projects in different industry sectors around the country. In large part this has been driven by a rapid growth in demand in Asia as they seek raw material inputs. This also provides opportunities for industries supplying into these projects.

In the past there have been a number of impediments to developing downstream capability. The department's assessment is that the downstream linkages have been relatively poor, but we would see them as improving. One has been the small size of Australian firms compared with their international competitors. The sporadic nature of projects makes it very difficult for smaller firms to invest in the equipment and the skills necessary to participate in the industry in a competitive way. There have been perceptions by some project developers about local capabilities, and many local firms in the past have not been competitive—they have grown up behind high tariff barriers, which have since been removed but caused some attitudinal problems.

We think there has been quite a significant change in the competitiveness of local firms. Australian firms now are very cost competitive. Most of the industrial relations problems which hampered parts of this industry have largely disappeared and there has been some rationalisation, although probably not enough, of some of the local players in the industry. I also think there has been some change in the attitudes of some of the mining companies and the major project proponents to the use of local firms and a greater understanding that it actually pays both parties to have a strong local supplier base.

The focus in DIST in the past was on the petroleum development industry, particularly around the North West Shelf project. We provide secretariat support to the Oil and Gas Consultative Group. Our view is that this was not a particularly effective mechanism because we were not dealing directly with the major project proponents. Our approach now has been to deal directly with the major project proponents in the mining and mineral processing and in the pulp and paper industry, and any other companies that are putting together major projects in Australia.

We have two mechanisms for doing this. Through our investment promotion program we provide a major projects facilitation service for major projects. That means we take them through the approval processes necessary for those projects to get under way. That gives us first-hand contact with the companies and provides us with the opportunity to work with them to increase the local content in building their facilities.

Also, with Customs we manage the policy by-law system. That was put in place to facilitate major projects by reducing the costs of their imported components by reducing the tariffs if there are no local producers. It has another element to it which is a mechanism to increase local participation in major projects. Through both those mechanisms we have used the Industrial Supplies Office to work with major project proponents to increase the local content in the construction of plant or facilities.

The department does not have any specific data on the level of local content in projects. Our feeling is that it actually varies depending on the size of the project and the level of technology involved. Certainly, on

smaller projects, and less complex projects, the level of local content would be very high. Maintenance tends to be very high whatever the nature of the project, but from anecdotal evidence there has been some improvement in terms of local participation in some of the bigger projects.

There is a variation between project proponents. Some are very good at utilising Australian industry and with some there would be room for improvement. But there certainly has been an improvement based on a better understanding by project proponents of the depth of capability that is available in this country. Thank you.

CHAIR—Has the department's role changed in respect of the North West Shelf since the committee's original report in 1989, and is that why the department decided not to put in a submission to this inquiry?

Ms Clarke—That is partly true. Investment activity in the petroleum development industry has been relatively quiet. We had provided the secretariat support for the Oil and Gas Consultative Group and because of resources—the department has gone through some downsizing over the last two years—we have had to spread our resources around more carefully. We do not currently provide secretariat support for the group so we do not have the depth of knowledge in that area any more.

CHAIR—Who do you see as the lead agency in industry development in Australian participation in the North West Shelf?

Ms Clarke—By the North West Shelf I presume you are talking about just the oil and gas development, or are you talking more broadly?

CHAIR—I think that general area. I understood that your department had a responsibility in there. If it has a responsibility, is it still the lead agency or is it not the lead agency?

Ms Clarke—We had some role in the previous North West Shelf project. We were not included in all the consultative mechanisms at that time. I think DPIE tended to be the lead agency. Certainly, when more sensitive decisions were made about local participation, our department was not included in those discussions.

CHAIR—How do you see your role in terms of development in north-west Australia, both onshore and offshore?

Ms Clarke—We work with the major project participants who seek facilitation status, and there are a number of projects in Western Australia at the moment which have major project facilitation status. The final investment decisions have not yet been made and when they are we will be working through the facilitation process with them. They also come and see us for decisions on policy by-laws and at that point we enter into discussions with them about the level of local participation.

CHAIR—With the Oil and Gas Consultative Group, evidence was taken by this committee in Perth earlier this year from the Western Australian Department of Resources Development and they said that that group had been completely disbanded. Is that your understanding?

Ms Clarke—A final decision has not been made about its termination but it certainly has not met for at least 12 months. We did not find it a particularly effective mechanism because the major project developers were not members. Members tended to be industry associations. We simply were not dealing with the major investors, who are the ones you need to talk to about content issues.

CHAIR—Your background paper that you have just given us today talks in terms of that group still operating.

Ms Clarke—I do not know if it says it is still operating, but it has not been formally disbanded.

CHAIR—You have provided us with nothing here that says that they have not functioned for 12 months.

Ms Clarke—It is basically in limbo. As a department we do not have the resources to service it any more and we would question how valuable it was.

Mrs JOHNSTON—Going back to your comments about tariffs—you said that that has created an attitudinal problem over the years—how would your department react to the suggestion that is being made currently that tariffs are being removed too quickly in terms of this industry?

Ms Clarke—Tariffs in this industry have been at relatively low levels for quite a long time. A very high percentage of equipment currently comes in duty free. It is an interesting issue. Having dealt with the industry 10 years ago, while the heavy engineering industry were relatively highly export oriented, there were certainly some attitudinal problems, as there were across a lot of protected industries. It is a difficult issue, but it is hard to avoid the conclusion that reducing levels of assistance has made a number of companies in those industry sectors much more competitive. It is probably debateable about the pace of reform and how we went about it, but that is a very complex issue.

Mrs JOHNSTON—So you would be of the view that it would make the industry far more competitive on the global market?

Ms Clarke—At a very broad level, that would be our general conclusion.

Mrs JOHNSTON—In the areas of the North West Shelf there are a lot of projects up there that are being contemplated at the moment, but we have also heard from various players in the industry—the unions as well as the employers and bodies like the Chamber of Commerce and Industry—that there is a considerable shortage of skills there now, apparently. How would you address that shortfall? What advice could you give to people and other companies? Do you see a role being played by your department in that?

Ms Clarke—We do not deal with education and training as a general issue. The way the system has been set up is for industry to work more interactively with the training sector, which is actually managed by DEET. So the way to address those skill shortages is often through those mechanisms. It is a difficult issue because of the sporadic nature of projects, and I am aware that there is some stress in the system because of the lack of skills at the moment. But there are mechanisms in place to work with, I understand, in the DEET

portfolio.

Mrs JOHNSTON—Can you expand on those mechanisms?

Ms Clarke—If it is vocational education and training or tradespeople that you are looking for, firms can indicate what their needs are to the training institutions. They have advisory boards and those sorts of mechanisms. Firms themselves can increase the intake of apprentices. If we are talking about engineers, it is a more difficult problem because it takes a long time to train an engineer. I think this country imports about 30 per cent of its requirements for engineers; I think that is correct.

Mrs JOHNSTON—So the reforms that have taken place in terms of industrial relations you would see as a benefit to perhaps the taking on of new apprentices for the company?

Ms Clarke—I do not have any specific data, but I would expect so. I think in the petroleum development industry in particular industrial relations have been a problem in the past.

Mrs JOHNSTON—We did hear in the Perth hearings—particularly from the TLC, I think—the union representatives saying that, because of the ups and downs of the projects in the particular industry, workers would quite often delay the finish of a project or perhaps put excessive demands on their wage components. I suppose that in itself has not led to good relationships between the companies that involve the developers and the unions. Do you see, with a more continuous projected program of developments happening, that some of those things could be eradicated and we will have a steadier flow?

Ms Clarke—It would be nice if development projects did happen in that way, but unfortunately they do not. They tend to be driven by market demand. At the moment it is quite high and there is a lot of work there, and we expect that to go on for some time. But that is not normally the case. One way for firms to address that is to move into the export market so that they can balance their workloads. The other way is to look more broadly at the sorts of projects that they can do in Australia.

Being a supplier into the petroleum development industry would suggest that your engineering capability is quite strong and that you should have the capability to participate in a broader range of projects, setting up processing plants and those sorts of things. So companies would need to take a broader view, I think, of what they can participate in. But it is a problem in this industry and that is certainly why a number of them have moved into the export market, to try to balance workloads. It does not help all the way down your work force, unfortunately.

CHAIR—Can I draw your attention to some comments that the committee received from Western Australian state officials regarding the lack of activity in Canberra. This was at the earlier hearings. Their claim was, ‘There is virtually no activity that I am aware of in Canberra. In fact, there is negative activity. I think a level of interest from the bureaucracy would be useful.’ Would you like to comment on that?

Ms Clarke—I would disagree with that. Maybe the problem is actually a lack of visibility about how we are currently approaching the issue. Because of the policy by-law issue and the projects facilitation mechanism, we are now speaking to most major project developers. There are a lot of projects on the

drawing books at the moment which have yet to take off. Certainly we work very closely with the Industrial Supplies Office, who have a database on industry capability. On some occasions we have actually funded the Industrial Supplies Office to put an officer with a company to work with them to increase the level of content in projects.

CHAIR—So you have actually done some promotional work with participants there?

Ms Clarke—We use the leverage that we have, particularly through policy by-laws. That is now quite a rigorous process. They have to justify, before they get the by-law benefit, that they have gone through every effort to increase their local content. We work with the Industrial Supplies Office, which has probably got the best database on industry capability, to test that has happened.

CHAIR—Would you explain a little more about that policy by-law? What is that about?

Ms Clarke—Mr Back has responsibility so I might pass that one to him.

Mr Back—It is basically a mechanism to give major project developers an import duty break on major equipment that they bring in for their projects. The policy by-laws enable the minister responsible for Customs to waive the duty in areas where there is no local manufacture. This tends to involve major items of capital equipment used not only in the oil and gas industry but right across all sectors—mining, food processing, resource processing, wood and paper pulp, and that sort of thing.

The big proviso is, of course, that that waiver takes place only after, as my colleague has indicated, there has been a strong testing of Australian supply capability. The way that is done is through the Industrial Supplies Office. When the companies have these major projects, they are invited to go to the Industrial Supplies Office and lay out their plans virtually on the table. The Industrial Supplies Office will look through the plans and see if there is any Australian supplier who is capable of providing a contribution. Where there is no local manufacturer—and given that the tariff in the schedule is now mainly at five per cent—imported capital equipment, for which there is no local comparable substitute, may come in with that duty rate of five per cent waived. That is the general rule in simple terms.

CHAIR—So the evaluation of that process is done by the Industrial Supplies Office?

Mr Back—Yes, not always, but it is the main player.

CHAIR—We have already had evidence today from its representatives that they pursue that fairly rigorously.

Mr Back—Yes.

CHAIR—What other agencies are involved in pursuit of that? You were talking about components that you said were unable to be manufactured in Australia. Who else pursues it?

Mr Back—Again, it depends on the nature of the project. If it was industry-specific, say, something

associated with mining, we would send them to all the various mining associations that cover mining activity in Australia to be consulted as well. We would involve the main industry organisations as well, like the MTIA and Australian Chamber of Commerce and Industry. A wide range of these organisations is notified which, in turn, will alert appropriate members of these sorts of developments and therefore send them the sort of signal that if they feel as though they have got capacity to put into these projects, they may do so.

CHAIR—Given the projects of which you are aware, would you have any estimate of the percentage of products and supplies that go into them that might be sourced from outside Australia?

Mr Back—No. As indicated previously, it varies, depending on the nature of the project. For example, a major pulp and paper mill will be different from an oil and gas plant, which will be different from a plant that is set up to treat mineral ore. It is very different in each case, and we just work on a case by case basis. I might add that, at the end of the day, we do not always seek that information. We do not wish to be all that intrusive in seeking information from companies in terms of costs. Where they come in for policy by-laws, we basically just seek the information that will satisfy that exercise.

Mrs JOHNSTON—In relation to that, was that the same as the Customs by-law?

Mr Back—Yes.

Mrs JOHNSTON—May I raise with you a case that was provided to us this morning by APPEA? It gave the example of a Christmas tree that was imported. Because the actual equipment was in two separate shipments, the exemption was not allowed. Would you like to explain that because, if I may put it in the context that it was just because it was in two different crates, that seems ridiculous?

Mr Back—I do not know the full facts of the case, but I can hazard a few guesses at what might have transpired. They were looking at a policy by-law, item 43, which allows for equipment to come in in parts. That item picks up major projects and the capital equipment involved, which is too big to bring to Australia's shores in a single shipment. If you wish to break it down to bring it in—in two or maybe more shipments—you may apply for exemption of duty under that item 43.

Some conditions attach to that. For example, the goods must come from a single source overseas. It is no use trying to bring in equipment under that item if it is sourced from about six different countries. The goods must have been assembled in a like form in the exporting country—if it is was a Christmas tree, something like that must have been assembled in the exporting country as well. There are a number of conditions that are attached to that. I am not sure what the issue was in this particular case but, obviously, the shipment failed to satisfy all the terms of the item and Customs felt it necessary to refuse the application.

CHAIR—We have had evidence in both directions on this. AEEMA, which is the Australian Electrical and Electronic Manufacturers Association, has been involved in several projects. It gave us evidence earlier today that it believed that the administration of the policy by-law system was merely a rubber stamp one. The administration allowed products to come in with virtually no attempt being made to determine if there was any domestic supply here or not. Is that a perception of yours?

Ms Clarke—I think that probably three years ago that would have been a valid comment. We have tightened up the guidelines significantly. Also, linking into Australian industry and increasing industry participation is now a very strong component of the by-law system which—it is probably fair to say—was not emphasised in the past.

CHAIR—Was that following the government's response to the 1989 committee's report?

Ms Clarke—No, I think it was more recent.

CHAIR—What led to that change? Had you had a number of complaints from industry?

Ms Clarke—Complaints, change of management, yes, and we have just simply tightened it up. We had ministers who had strong views on the issue.

CHAIR—So the administration of the policy by-law had been simply used as a rubber stamp to allow products in?

Ms Clarke—That is probably a bit strong, but I do not think it was looked at as a tool to increase local industry participation. The fact that you actually have a dialogue with a major project proponent is an opportunity to get it to consider Australian industry capability. I do not think that opportunity was pursued as hard as it might have been in the past.

CHAIR—I do not suppose you have any way of measuring how effective that has been?

Ms Clarke—No, it would be anecdotal, I suppose, but certainly we have got some good responses from particular companies that we deal with—those companies probably would not have paid any attention to the issue in the past—particularly once we have placed ISOs with them to identify local suppliers.

Mr FORREST—I am wondering about the enterprise development work you do. Your submission refers to some success stories with Australian companies, which have invented robots, underwater fasteners and so on. One of the impediments that has been identified is Australian companies not having the size and the track record to get into the industry in the first place. Do you encourage networking and maybe joint ventures between Australian companies to develop it?

Ms Clarke—We do have programs to encourage the networking of companies. I understand that the oil and gas group did some work, though, I would have a question about how effective some of the work was that they were doing. They were tending to work with networks of companies in isolation from projects, which was not terribly effective. Certainly, companies are now becoming more astute about the need to work with other companies. I think, historically, Australian companies were not always that good at working together. They tend to be competitive which can be a bit of a problem. But I think there is more of that happening now.

Mr FORREST—It is much the same case in any industry, but unless you have got a track record you cannot get your first project.

Ms Clarke—Yes, it is a bit of a chicken and egg.

Mr FORREST—There was a program, I think, called NEIS?

Ms Clarke—Yes. That is now AusIndustry. The Commonwealth part funds AusIndustry and it is actually managed by the state industry departments. They run a whole lot of support programs for firms to improve their business planning, to look at issues like innovation, export marketing—a whole range of issues—which has been relatively effective in terms of upgrading the skills of a range of SMEs.

Mr FORREST—Is a lot of your work in that liaison with Australian companies or do you have contact with overseas companies as well, perhaps with an interest to encourage them to invest capital here?

Ms Clarke—Yes, we work with local companies and the department also manages the investment, promotion and facilitation program. We have an active overseas promotion program to encourage overseas owned companies to invest in Australia.

Mr FORREST—Have any of those international companies expressed concern about reservations about our industrial relations arrangements or any impediments like that that they do not find in some of the other countries?

Ms Clarke—They do until they get here. There is still a lot of, I guess, history out there, particularly in Europe and Japan—probably even in the US—where there is a perception that Australia has a negative industrial relations environment. But if you talk to any of the overseas owned companies that operate in Australia, they will tell you that our industrial relations environment is actually very good. There may be a few exceptions. Some industries are not quite as good. Certainly, in a lot of the industries that I have dealt with, it is good if not better than some of the industrial relations environments operating elsewhere in the world.

Mr FORREST—Does that include the waterfront?

Ms Clarke—No, it does not.

Mr FORREST—Would they make an exception there?

Ms Clarke—No, it does not include the waterfront. But certainly in the manufacturing industry, and I would be talking about industries like the automotive industry, the pharmaceuticals industry—a reasonably broad range. We tend to be pretty flexible.

Mr FORREST—That is refreshing.

CHAIR—Just one final question: the strategies of your own department that you have in place to ensure that the programs are working towards increased local content, do you think they are effective or have you moved away from the effectiveness of some of those strategies?

Ms Clarke—I guess we have adjusted the way we have dealt with this issue because we were not convinced that the way we were going about it before was as effective as it might be. It covers a number of levels. Certainly, I think there has been an improvement, but it is not just the way we operate. There has been a marked improvement in Australian industry in terms of their capability and their client focus. There are a lot of firms out there that are performing extremely well in a range of industries, in the engineering industry which is supplying many of these projects.

I think there is probably scope to continue to improve, particularly Australian companies taking the lead in major projects because then you pick up the project management skills, you have more control over the project in accessing any technology that might emerge out of it and there is the profit that might accrue to you. All those things are more beneficial if you are managing from the top. I think in some senses, we are coming from the bottom.

That is also up to industry itself. There is probably scope for further rationalisation of the engineering industry, so you have larger firms that have the capacity to do this. There is probably more scope for Australian firms to partner with overseas partners where they do not have the specific expertise. While we continue to work away at one level, industry also need to continue to build on the gains they have made.

CHAIR—I take it that you wish the document you have submitted to the committee today be taken as an exhibit and placed on the public record?

Ms Clarke—Yes.

CHAIR—I have to say that we would have preferred a submission which perhaps had set out the department's direction in a more deliberate and strategic way. I wonder if you might enter into some correspondence with the secretariat as well.

Ms Clarke—Yes. Part of the difficulty is simply a resource issue. We do not put a lot of resources into this area any more because we do not have them. We would have preferred a submission as well. I have to apologise about that, but we just simply have not had the resources to put one together.

Resolved (on motion by Mrs Johnston):

That the committee receives as evidence and authorises publication of the supplementary submissions from the Department of Primary Industries and Energy.

Resolved (on motion by Mrs Johnston):

That the committee receives as evidence and includes in its records as an exhibit the document presented by the Institution of Engineers, titled 'Engineering the transition to competitive utilities.'

Resolved (on motion by Mrs Johnston):

That the committee receives as evidence and includes in its records as an exhibit documents presented by Austenergy titled 'Oil-Gas—exploiting every field of productivity,' 'CEGELEC annual report 1995,' 'Duplex DP Control

System,' 'Capabilities profile' and 'CEGELEC Australian profile.'

Resolved (on motion by Mrs Johnston):

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

CHAIR—I thank our witnesses for being available and answering our questions. I declare the hearing closed.

Committee adjourned at 4.54 p.m.