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**Submission:** Inquiry into how the mining sector can support businesses in regional economies.

### Background

#### **The Pilbara region is the resource industry engine of Western Australia.**

In 2017 it contributed \$61 billion in iron ore and \$21 billion in oil and gas to the Australian economy. The largest bulk cargo port in the world operates at Port Hedland.

Mining dominates all sectors of the regional economy. Its infrastructure beyond the actual mines is massive covering rail, ports, power generation and housing.

Going forward there is very significant committed and potential investment in new iron ores mines, oil and gas, as well as emerging resources such as lithium and heavy metals.

#### **Barriers in the greater use of regional businesses in the procurement of services by the mining sector**

In order to arrive at processes to enhance procurement by regional business, which we understand to mean businesses that are located in the particular region in which the mines are operating, it is necessary to understand the supply chain of the mining industry. For this submission we refer to the Pilbara region.

#### **Mining Industry Supply Chain**

The supply chain for major resource industry projects can be shown diagrammatically as below. This is a simplified version of a contracting process that has numerous variations and complexities. This version would be for projects that go to tender and are usually at least \$2 million in value.



- Tier One: Usually a large business, which is, registered as an approved vendor, and which may have a Pilbara representative office. Also, sometimes referred to as lead or head contractor.
- Tier Two: Will have extensive experience and may have a Pilbara representative office/depot and in some cases will be based in Pilbara area.
- Tier Three: Will be doing specific parts of a project or supplying lower level services. May often be a local Pilbara company or Perth based with a local branch/representative. Will still need to meet all supply conditionalities.

It is essential to note that the Resource sector is undertaking a major focus on driving efficiency, productivity and reducing costs. As a result, there has been a streamlining and consolidation of suppliers and contractors.

As described above in the supply chain, most small companies are suppliers/sub-contractors to the large contractors. Cost is important but solving customer expectations is the main focus. Also, one of the biggest issues is barriers to entry - many small firms try and often fail to become suppliers. There is considerable bureaucracy to become a supplier including to prove the company's safety credentials, which can be difficult as a new player. Having the working capital to carry a small firm through the process can also be problematic.

### **Challenge of Technology**

There are also important challenges to be faced by local suppliers both currently and into the future.

The rapid adoption of technology will increasingly impact the number and type of jobs on offer in the resources sector. Global trends such as big data, automation, driverless vehicles, drones, remote sensing, additive technology, 3D manufacturing and the like are being researched and where appropriate adopted to increase efficiency, increase productivity and reduce labour costs.

All of the major resource companies are adopting or researching these technologies and the conclusion is that labour growth for operations will be strongly influenced by these factors for the next 20 years.

What is not yet fully appreciated is that such technologies are not location specific. Remote sensing and automated control centres could operate out of Pilbara just as well as Perth. Suppliers who want to remain competitive will have to be knowledgeable about technological advances and be innovative in their offerings to the resource companies.

There is a risk that suppliers based in the Pilbara will move down in the value-added chain providing lower value repairs and site maintenance services such as landscaping, labour hire, cleaning services and the like if they do not keep abreast of innovation trends in the industry.

Local industry needs to be supported by and have access to high quality digital technology services, as well as suitably trained personnel coming from the secondary and tertiary education facilities in the Pilbara and WA.

Companies also need to take advantage of the West Australian government's Innovation Strategy and local governments' need to consider their role in networking with organisations such as NERA (National Energy Resources Australia), Spacecubed and the Cooperative Research Centre for Optimising Resource Extraction (CRC ORE) to name a few.

### **Best Practises between the mining sector and businesses, especially in regard to how they can support regional communities and economies**

In the Pilbara there are several observations that can be made about local procurement actions by the Resource Industry as follows:

- Resource companies make very significant grants to local community services and events, such as to Red Earth Arts Festival, the Pilbara Education Initiative, quarterly community grants, medical services equalisation scheme, early childhood learning programmes, traineeship programmes for Aboriginal people etc.
- Specific Aboriginal engagement programmes to enhance skills and procurement from enterprises as part of their agreements with the Aboriginal communities. This has multiple facets ranging from supporting partnerships with Aboriginal businesses to specifying the percentage of supply from Aboriginal businesses that should come from specific contracts. The latter is done through active mentoring of Aboriginal business in how to meet contractual requirements, and requirements for Tier One and Tier Two contractors to engage with such suppliers. There is also active direct contracting of Aboriginal suppliers by the resource companies.
- At the "mine site" level smaller contracts that may not need to go to open tender or use group purchasing systems often look for local suppliers as there are positives such as building long term relationships, quick response times and saving costs by not having to fly in expertise. All of the above are still governed by stringent industry procurement standards.
- Large contracts awarded for management, catering and servicing of camps and facilities have local content requirements and it is expected that such lead contractors will both employ local personnel where possible as well as use local sub-contractors where feasible.

### **Way Forward**

The recent study by NERA on the industry competitiveness assessment of the Australian O&G industry arrived at the following major conclusions:

"To achieve improvements in Australia's overall industry competitiveness, the report identifies four priority areas where changes in the short term can positively impact performance:

- **Value chain** - Collaboration between operators and service providers to share resources and infrastructure, as well as setting up regional supply hubs, could see Australia overcome many of its structural supply chain disadvantages.
- **Research & Innovation** - Increased collaboration between universities and industry, combined with a focus on commercialisation of research would see Australia become a world leader in oil and gas research and innovation.
- **Workforce** - Investing in building local capability for the Production and Abandonment phases, so that Australia's workforce maintains its high quality.

- **Regulatory reform** - Increasing engagement between industry and government to reduce the 'red tape' that adds costs and extends timelines within the industry."  
(Source: NERA ICA report)

RDA Pilbara fully endorses these priorities, which also apply just as validly to the mining industry and provide a strategic framework for engagement between government, the mining industry and regional businesses.

However, it is strongly recommended that the Federal government focus on supporting local businesses through development grants to adapt to the changing technological landscape in the mining sector.

Federal government can also actively ensure that its purchases of supplies and services within a region are sourced from competitive local businesses in order to help them diversify their client base.

In conclusion the Pilbara region is a stand-out region that demonstrates the high level of collaborative efforts between the major mining companies, local government and the community.

Yours sincerely



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Chair  
Regional Development Australia Pilbara

