

Date

20 April 2011

Issue:

Local Content

KIC Position and Key Messages

The 'local content' debate is primarily about the proportion of construction contracts for the big mining and energy projects in the State's north that are let to onshore fabrication companies as opposed to the work going off shore.

Local content in the context of the mature manufacturing industries that operate in the Kwinana Industrial Area (KIA) is a very positive story for the region. Whether it is the manufacture and distribution of chemicals, fuels, fertilisers, or metallic products etc, these industries all operate in highly competitive international markets.

These companies are ongoing businesses that exist by providing goods and services to their customers at competitive prices, unlike the developing mining and energy projects that are in their construction phase; which enter their 'ongoing business' phase later.

KIC members do however contribute significantly to local content.

- Approximately \$16 billion in economic activity is generated through the activities of these companies (*KIA Integrated Assessment 2007*), and a high proportion of this is spent within the State.
- There are 5,000 directly employed workers, and another 26,000 indirectly employed workers. Of these workers, 64% live within 15 kms of their place of work, and a good proportion of their incomes will be spent in the local economy.
- A big proportion of the work around servicing the mechanical, maintenance and fabrication work needed to keep the installations operating is sourced locally.

Training the future workforce through the employment of apprentices and trainees is an important element in the local content debate. Kwinana industries continue to employ apprentices and through KIC are working with the local high schools to make sure the education system understands the needs of industry in the education of the students.

The large KIA manufacturing companies want to reserve the right to go offshore in order to obtain the best price (or value) for their construction needs. Whilst there is a preference for onshore contracts, there is an over-riding necessity to obtain best value because of the need to maintain international competitiveness. The proportion of fabrication work being sourced from overseas is very small when compared to the value of the local content work.

There is a future for a niche construction industry in Kwinana; one that is able to price competitively but importantly that is also able to respond quickly to the construction and maintenance requirements of the big companies operating in the KIA.

Background

There is an increasing level of public discussion about the 'domestic content' component of the major construction projects going on in the northern part of the State.

Specifically, the issue is that local companies involved in servicing/contracting to the construction industry are not getting the contracts that they thought were going to be available for tender for. In short, their view is that almost all work is going offshore.

There is a degree of anger present in these support industry companies as they believed the State Government lead them to expect that a significant amount of work would be built locally.

There is some evidence to show that in some of these fabrication companies shifts are being scaled back, tender books are empty, and in some cases we are seeing closures, with skilled workers leaving the region to chase the work

The 'domestic content policy' is not a formal policy of the government; it is merely an agreement with the mining and energy project companies that there is an expectation that a proportion of their work will be awarded to local companies.

KIC is worried about a downside of the construction industry's fabrication work being carried out offshore, this being that we will see the longer term reduction in skilled workforce capacity. It is essential for industry that future generations of skilled workers are trained, and the fabrication industry has in part performed this task in the past.

Into the future it is likely that the trend towards off shore fabrication will continue due to the high cost of labour and of doing business here in Australia. KIC members consider that there will be a future for a niche construction industry; one that is able to price competitively but importantly that is also able to respond quickly in the construction and maintenance space.

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