



Australian Government

**Department of Industry, Science,
Energy and Resources**

Submission

Inquiry into procurement practices for government-
funded infrastructure

July 2021

Terms of Reference

The House of Representatives Standing Committee on Infrastructure, Transport and Cities will inquire into and report on procurement practices for government-funded infrastructure and the potential to enhance the sovereign capability of the Australian industry, with particular reference to:

- a) existing infrastructure pipelines and related supply requirements
- b) challenges and opportunities with existing procurement practices, including frameworks, standards, rules and norms, and intersections between tiers of government and the private sector
- c) challenges and opportunities to enhance Australia's sovereign industry capability, including for Australian owned businesses
- d) lessons from other Australian jurisdictions and other portfolio areas, including Defence's industry capability approaches
- e) how Australia can balance its international obligations with maximising local content opportunities, including by leveraging foreign direct investment
- f) alternative procurement models, including reference to international examples
- g) other relevant matters.

Submission response

The Department of Industry, Science, Energy and Resources is delivering work that will enhance Australian industry's sovereign capability in a number of areas, involves investment in infrastructure and contributes to procurement policy. This work features both as a core focus of certain initiatives, and as an important by-product of broader work to support industry growth and jobs.

The department has responsibility for Australian Industry Participation policy, which supports Australian business' participation in major projects, and those receiving government funding, particularly in infrastructure development. The department is also implementing measures to increase small and medium enterprise (SME) participation in government procurement, through uplifting business capability and gearing government procurement to maximise opportunities for SMEs.

The department is delivering several bodies of work that together support Australia's sovereign capabilities in fuel production and storage. The Boosting Australia's Diesel Storage program is providing grants to fund the construction of additional diesel fuel storage, contributing to Australia's fuel security as an important part of our sovereign capability. Additionally, the department is administering the Government's support to Australia's oil refineries, through the payment of at least one cent per litre of primary transport fuel (petrol, diesel and jet fuel) produced by Australia's major domestic refineries.

The Entrepreneurs' Programme directly supports SMEs with advice, networking and grants, enabling their engagement with government infrastructure opportunities, including for the European Southern Observatory and Square Kilometre Array.

The department's delivery of the Modern Manufacturing Strategy will enhance Australia's sovereign industry capability, including for Australian owned businesses, through its support for manufacturing. Through the Supply Chain Resilience Initiative (SCRI), the Government is enabling Australian businesses to establish or scale a capability that addresses an identified critical supply chain vulnerability. This includes manufacturing-related capabilities, equipment, technology, skills and processes.

The department is working to develop infrastructure to position Australia to capitalise on its opportunities as a producer of hydrogen, including through a National Hydrogen Infrastructure Assessment that will examine the supply chain needs for the development of the Australian hydrogen industry. The department is also administering funding for the development of hydrogen hubs in regions where hydrogen users and exporters are co-located, to grow the hydrogen industry within fewer, larger supply chains, with associated cost savings. Alongside the benefit this provides through the development of a thriving industry, these measures also serve to establish hydrogen as an important component of Australia's sovereign fuel production capability into the future.

The department is delivering work to improve Australia's gas power infrastructure with the National Gas Infrastructure Plan, with complementary measures to increase the supply of gas, establishing an efficient pipeline and transportation market, and equipping gas customers to negotiate for competitive outcomes. This work contributes to improving the robustness and resilience of Australia's sovereign fuel production capability.

The Underwriting New Generation Investments (UNGI) program is improving the competitiveness and reliability of electricity supply by supporting the development of new electricity generation facilities, while the Government's commitment of up to \$1.38 billion in equity for Snowy 2.0 is contributing towards increasing the system's capacity by almost 50%, ensuring stability in Australia's power system. These initiatives will both support the resilience of Australia's sovereign energy capability by ensuring our energy production capability continues to meet Australia's needs.

The Australian Radioactive Waste Agency (ARWA) and our work on decommissioning of the Northern Endeavour have gained insights into the challenges of procuring complex and specialised goods and

services, for which limited private sector expertise exists, and has identified potential enhancements to procurement methods to overcome this challenge this.

Australian Industry Participation

The AIP National Framework aims to support and ensure opportunities for Australian businesses to participate in major projects. Where required, AIP plans detail how the successful contractor will engage Australian industry, helping to ensure full, fair and reasonable opportunity for Australian businesses to compete for work. AIP plans require that project proponents undertake specific communication and engagement activities, to increase suppliers' awareness of the opportunities the projects are generating.

AIP plan requirements may apply to:

- major public and private projects with capital expenditure of \$500 million or more (through the *Australian Jobs Act 2013*);
- Australian Government procurements of \$20 million or more;
- Australian Government grants of \$20 million or more;
- Australian Government payments of \$20 million or more to state and territory governments for large infrastructure projects; and
- investments from the Clean Energy Finance Corporation and Northern Australia Infrastructure Facility of \$20 million or more.

In addition, under the AIP National Framework most Australian states and territories have local industry participation policies and plan requirements for projects and procurements. The Commonwealth works with state and territory government to ensure there is no duplication of regulation where a state or territory requirements exists, provided the local industry participation plan achieves the same objectives as an AIP plan.

Government Procurement Initiatives

As part of the 2021-22 Budget, the Government committed to provide an additional \$2.6 million over the forward estimates to make better use of existing Commonwealth procurement policies to support increased participation of Australian businesses. The initiative has a particular focus on the capability of SMEs, and those in regional and rural areas.

In 2019-20, the Government procured \$53.9 billion in goods and services; SMEs secured 85% of those contracts, but this accounted for only 25% of the total procurement value. The measures being delivered in the 2021-22 Budget are intended to support SMEs to increase their competitiveness for government procurement opportunities, while ensuring that achieving value for money remains paramount. Greater SME participation in government procurement can foster innovative and resilient practices, improved business capability, new products and supply chain integration, leading to more jobs and economic growth.

The department is working with the Department of Finance to implement actions across four streams of work, to strengthen Australian business' capability to participate in Government procurement.

1. Understanding business engagement with Commonwealth procurement.
2. Improving business capability, including through \$2.6 million funding towards targeted learning events.
3. Optimising government procurement.
4. Improving department procurement processes.

Modern Manufacturing Strategy

The Australian Government is contributing to enhancing Australia's sovereign industry capability, including for Australian owned businesses, through its support for manufacturing. By transforming manufacturing, Australia has a significant opportunity to grow a resilient, globally competitive, and vibrant onshore capability. That's why the Government launched the \$1.5 billion Modern Manufacturing Strategy in October last year. By playing to our strengths, strategically investing and harnessing our world-class science and research, we can build our national resilience into a stronger economy and take more of our quality products to the world. The Strategy is underpinned by whole-of-economy reforms in areas such as tax, industrial relations, energy, trade, expansion and diversification, innovation and skills.

The Strategy focuses on areas of greatest competitive, comparative and strategic advantage through the six new National Manufacturing Priorities (NMPs) of Resources Technology and Critical Mineral Processing; Food and Beverage; Medical Products; Recycling and Clean Energy; Defence; and Space.

The \$1.3 billion Modern Manufacturing Initiative (MMI) is designed to encourage private investment and support manufacturers to grow and move up the value chain. The MMI is about transformation, not business as usual. Funding is available through three targeted streams:

- The Manufacturing Translation Stream (MTS) provides businesses with funding to support projects that translate high quality ideas and/or research into commercial outcomes.
- The Manufacturing Integration Stream (MIS) supports projects that integrate Australian businesses into domestic and international value chains, or upgrade their existing position in a value chain. It will also facilitate the adoption of product standards and greater sharing and transfer of knowledge.
- The Manufacturing Collaboration Stream (MCS) is the largest component of the Modern Manufacturing Initiative (MMI), with \$800 million in grants available. The MMI is the centrepiece of the Strategy. The Collaboration Stream will co-fund a small number of large projects that will transform the manufacturing sector by increasing collaboration, and building economies of scale to enhance growth and competitiveness in the six National Manufacturing Priority areas.

The \$100m million Supply Chain Resilience Initiative (SCRI) aims to strengthen Australia's ability to access critical products and inputs, better positioning us to respond to future supply chain disruptions.

The SCRI includes:

- working with industry to further develop our understanding of supply chains for critical products and supply options to address identified vulnerabilities; and
- a \$100 million grant program to incentivise businesses to invest in manufacturing capabilities to address identified vulnerabilities.

Round two of the Manufacturing Modernisation Fund (MMF) has provided over \$50 million to support manufacturers to create new jobs and invest in new technologies.

The \$30 million Commercialisation Fund, managed and administered by the Advanced Manufacturing Growth Centre (AMGC), in consultation with the other five Industry Growth Centres and the CSIRO, will foster projects that bring industry and researchers together to commercialise new products and processes within the Government's six National Manufacturing Priorities.

Funding under the Government's Modern Manufacturing Strategy is awarded under open and competitive processes.

Entrepreneurs' Programme

The Entrepreneurs' Programme (EP) delivers advice, networking and grants to support Australian SMEs to build their capability, grow, innovate and commercialise nationally and globally. EP does this through a network of over 170 independent, expert facilitators across Australia, who work closely with their clients to determine the business's needs and how to achieve them in the short, medium and long term.

EP is delivered through AusIndustry, within the department. EP is comprised of a suite of services designed around the achievement of a specific business outcome at a particular point of time – be it a commercialisation objective, stronger marketing strategy, rapid growth, or innovation through connections with researchers.

As one of the Australian Government's business flagship programs, and because of its national footprint, its high quality national network of independent expert facilitators, and its deep and lasting engagement with Australian SMEs, EP clients are often seeking to capitalise on the intersection between tiers of government and the private sector.

This intersection is explicit with respect to procurement activities for Australia's largest pieces of astronomy infrastructure: the Square Kilometre Array (SKA) and the European Southern Observatory (ESO). To better facilitate opportunities and positive outcomes for Australian SMEs in procurements for these pieces of astronomy infrastructure, EP has a facilitator who acts in an official capacity as the Industry Liaison Officer for SKA and ESO and EP has developed an EP SMART Project and Supply Chain specifically around the procurement need.

The Industry Liaison Officer for the European Southern Observatory (ESO) and the Square Kilometre Array (SKA)

The Industry Liaison Officer (ILO) is employed as an EP facilitator and acts as the conduit between the department, the ESO and SKA contracts and procurement areas, Australia's SMEs, and the research sector to identify local suppliers with relevant capabilities.

As a Strategic Partner of ESO, Australian businesses can only tender for a minor proportion of procurement contracts specific to the mature La Silla-Paranal Observatory in Chile. The ILO helps to establish suppliers, who are then invited by ESO to tender for contracts. Successful procurement bids have resulted in the Australian National University (ANU) and Macquarie University partnering with research institutions in France and Germany to build a major new imager and spectrograph for the ESO Very Large Telescope, with an estimated total value of around 20 million Euros.

In the case of the SKA, the procurement opportunities for Australian businesses are more immediate and predominantly based in Australia. The SKA project is an international big science infrastructure, half of which will be built and operated in the mid-west region of Western Australia; the other half in South Africa. Construction is expected to start in late 2021 to early 2022 and finish in 2029, and several major construction work packages have been allocated to Australia, as a member, including a temporary accommodation camp, a large civil works package, and the construction of specially shielded buildings to prevent radio interference. There will also be significant opportunity post-construction for procurement related to the operation and maintenance of the project.

The ILO is working across industry sectors to define and establish the Australian businesses that can bid competitively over the next decade for this project. The ILO has also spearheaded some important changes in the procurement practices for the SKA to encourage the participation of Australian SMEs, including:

- The review of the large civil package, with a potential 'de-bundling' to allow Australian SMEs from the mid-west of Western Australia to be competitive.

- The development of an Indigenous Participation Plan and a Local Content Plan.
- The establishment of a channel for potential sub-contracting companies to express interest in partial scope opportunities.

EP SKA SMART Projects and Supply Chain

EP has also developed a SMART Project and Supply Chain for SKA, which provides SMEs with access to strategic or high-value projects that increase their capability, meet the specific needs of a market opportunity, or otherwise improve their performance and leadership capacity. Participating businesses have the opportunity to gain and share deeper insight into ways they might be able to individually and collectively make the most of emerging markets, better connections into existing supply chains, business performance and leadership development opportunities.

The EP SKA SMART Project assumes that Australian SMEs need help navigating the challenging international 'big science' project environment. Most Australian SMEs are not familiar with supplying into such complex international engineering projects, where supply challenges tend to include long lead times, with difficulties in achieving short-term return on investment, and procurement functions usually run from overseas (in the case of the SKA, the UK; in the case of ESO, Germany). For this reason, the EP SKA SMART Project focuses on:

- Building capability within Australian SMEs as it relates to their ability to assess, pursue, win and deliver work in a major project environment, and support them to pursue opportunities in an international mega science project.
- Exposing Australian industry to international 'big science' opportunities and encourage interest in other mega science projects.
- Assisting in creating stronger connections between industry and the Australian and international research sectors in order to assist industry to pursue and deliver work in an international mega science project.

National Gas Infrastructure Plan

On 7 May 2021, the Government released an Interim National Gas Infrastructure Plan (NGIP) which focuses on supply and infrastructure requirements for the east coast market and identifies priority gas infrastructure projects needed to alleviate forecast southern gas supply shortfalls in the near-term.

Building on the Interim NGIP, the Government is developing the first full NGIP, due to be completed later this year. This will signal to the market priority infrastructure investments needed to ensure adequate gas supply over the medium to longer term. The full NGIP will consider the future development of Australia's east coast gas market and broader gas supply and infrastructure needs over the next 20 years, out to 2040.

Future Gas Infrastructure Investment Framework

On 7 May 2021, the Government announced it would design and develop a Future Gas Infrastructure Investment Framework. The Framework aims to support critical infrastructure projects reach a Final Investment Decision (FID). The framework will:

- Set a clear process and provide certainty for industry on potential future project support
- Establish criteria for when Government investment in or support for a gas infrastructure project could be provided
- Set guidelines for establishing the types of support that would be available and the delivery of that support to provide certainty to industry; and

- Be limited to support early works of projects to get them to reach FID to minimise impact on the broader market.

The Government is currently consulting on the NGIP and the development of the Framework.

Underwriting New Generation Investments

The UNGI program was established to support firm generation capacity projects by providing underwriting or other financial support mechanisms to enable projects to secure debt financing. The Program was established in response to recommendation four of the Australian Competition and Consumer Commission's Retail Electricity Pricing Enquiry in July 2018 which identified there was a need for new competition and supply in the energy market to address significant pressures across the grid.

The program may offer support through a range of mechanisms including floor price contracts, cap and floor (collar) contracts, contracts for difference, underwriting of cap contracts, loans and grants. Other bespoke mechanisms may be considered on a case by case basis.

Snowy 2.0

Snowy 2.0 will expand the original Snowy Mountains Hydroelectric Scheme with an additional 2000 MW of electricity generation capacity and 350,000MW hours of energy storage. The Government has committed up to \$1.38 billion in equity for Snowy 2.0, with the remainder of the project to be financed by Snowy Hydro Limited (SHL). SHL has an Australian Industry Participation (AIP) plan in place for the Snowy 2.0 project, which ensures Australian businesses are provided opportunities to tender for the goods and services identified in the AIP plan, such as construction equipment and civil works.

The Government has also committed up to \$600 million in equity for SHL to build a 660 megawatt gas power station at Kurri Kurri in New South Wales. This project will help ensure adequate replacement generation is available once the Liddell power station retires, delivering reliable and affordable electricity for households, businesses and industries in New South Wales. SHL is developing an AIP plan for the project.

Liquid Fuels

The Boosting Australia's Diesel Storage program provides up to \$260 million in competitive grants to strengthen Australia's fuel security and sovereign industry capability by supporting up to fifty per cent of the capital costs of building 780 mega-litres of new diesel storage. The Program will boost Australia's on-shore diesel storage by 40 per cent by June 2024 and support around 1000 jobs.

The grants will keep fuel prices low by offsetting the cost to industry of the new minimum stockholding obligation under the Fuel Security Act 2021.

Under the program industry sign a grant agreement with the Commonwealth and business then engage in procurement activities as part of their normal contracting practices for construction projects of this type. This ensures value for the Commonwealth including as industry are providing matching funds for eligible project costs.

The program sought applications through an open and merit based process. The 10 best value for money projects were selected after assessment by a panel of experts from a competitive pool of 29 applications. The assessment criteria focused on alignment with program objectives, a geographic spread that best meets Australia's fuel security needs, capacity and capability of the proponent, and the positive impact of the grant funds on the project.

In 2020, Australia took advantage of historically low oil prices and entered into an arrangement with the United States Government to purchase and store oil in the Strategic Petroleum Reserve (US SPR). The procurement was for oil rather than funding infrastructure. The SPR is the world's largest crude oil reserve in specially designed underground caverns, and the arrangement with the US was required because Australia has no comparable infrastructure.

This oil allows Australia to meet our international treaty obligations at least-cost and provides options to the Australian Government in the event of an oil disruption. It can be released to the global market through being sold in-situ swapped on the global market, or brought to the east coast of Australia. Australia imports around 20 per cent of our crude oil from the United States Gulf Coast and it is a well-established supply route.

National Hydrogen Strategy

The National Hydrogen Strategy sets the vision for Australia's emerging hydrogen industry. Supply chain infrastructure includes powerlines, pipelines, storage tanks, refuelling stations, ports, roads and railway lines and any other facilities needed for hydrogen supply. To plan for the infrastructure needs, the government is leading a National Hydrogen Infrastructure Assessment that will guide government and private sector investment as the industry grows, and the government will periodically repeat this assessment as the sector grows.

In addition, a key element of Australia's approach to build the emerging sector will be to create hydrogen hubs – clusters of large-scale demand. These may be at ports, in cities, or in regional or remote areas, and will provide the industry with its springboard to scale. Hubs will make the development of infrastructure more cost-effective, promote efficiencies from economies of scale, foster innovation, and promote synergies from sector coupling. The government has allocated \$294 million to help develop five regional hydrogen hubs in Australia.

Northern Endeavour decommissioning

In February 2020, the government acted quickly to ensure the safety and security of the Northern Endeavour floating production storage and offtake (FPSO), when the Northern Oil & Gas Australia

(NOGA) group of companies, which owned and operated the Northern Endeavour, was placed into liquidation. In December 2020, the government committed to decommission the Northern Endeavour FPSO facility and remediate the associated Laminaria-Corallina oil fields.

Extraordinary circumstances led to the government stepping in on this occasion and the government does not consider this a precedent. It is not reflective of the requirements for how other projects are to be decommissioned in Australia's offshore waters.

Decommissioning the Northern Endeavour and remediating the Laminaria-Corallina oil fields will take several years. It will be undertaken in 3 distinct phases over a number of years:

- Phase 1: decommissioning and disconnection of the facility from the subsea equipment.
- Phase 2: permanent plugging and abandonment of wells.
- Phase 3: removal of subsea infrastructure and remediation.

The Department of Industry, Science, Energy and Resources is inviting Expressions of Interest (EOIs) to complete Phase 1. Submissions are due on 29 July 2021.

Australian Radioactive Waste Agency

The Australian Radioactive Waste Agency (ARWA) is progressing a program of works to establish a National Radioactive Waste Management Facility (NRWMF) to dispose of low level waste (LLW) and temporarily store intermediate level waste (ILW). The program's planned construction phase includes an enabling works package that involves constructing essential infrastructure to enable the construction and operation of the facility; a multi-year construction and commissioning phase to deliver the facility itself; and, once established, an operational phase of up to 100 years that will include further construction stages to accommodate future ongoing radioactive waste that arises.

ARWA currently has two main infrastructure priorities:

- The development of a national facility for RWM, including disposal of LLW and interim storage of ILW. The NRWMF project is progressing well.
- Development of a disposal facility for ILW. This project is at an early stage.

ARWA also undertakes these activities:

- Provides RWM best practice advice to Commonwealth Agencies, States and territory government waste holders and other Australian radioactive waste holders.
- Is collaborating with waste holders to better define the Australian radioactive waste inventory on which its RWM activities is based.
- Is developing a national decommissioning strategy which may also have future infrastructure capital implications.

In securing the safe and secure management of Australian radioactive waste, ARWA also secures the Australian production of nuclear medicines; vital to our health services, and important as exports. In addition, developing radioactive waste disposal pathways provides wider benefits for radioactive waste holders that undertake research, manufacturing, mining and other activities which are in the national interest, and benefit Australian communities.

Partnering with specialist agencies such as CSIRO to utilise Australian expertise provides an opportunity for ARWA to develop the capability of the Australian radioactive waste management industry. ARWA continues to engage with the Infrastructure and Project Financing Authority (IPFA), the Australian Government's independent commercial and financial advisers on major infrastructure projects.

ARWA engaged several independent, pre-eminent advisors with significant major infrastructure delivery experience, including IPFA, to provide review of and feedback into the development of the NRWMF program's procurement strategy.