Queensland Resources and Energy Sector

CODE OF PRACTICE FOR LOCAL CONTENT

A voluntary code to help companies engage with local industry

QUEENSLAND resources COUNCIL

TABLE OF CONTENTS

FOREWORD

The state government's embrace of an outcomes-based, flexible policy model for encouraging local industry participation in major projects that allows companies to tailor their approaches based on their individual circumstances is welcomed by the Queensland resources and energy sector.

The onus is now on the sector to present a clear policy pathway with the twin goals of facilitating a high level of Queensland content in Queensland resources and energy projects while maintaining and enhancing the sector's competitiveness in increasingly tough markets.

The Queensland resources and energy sector is critical to the state's economy providing more than 64,000 direct jobs, and as a result of $28 billion in Queensland local purchases in 2011-12, a significant number of indirect jobs.

This outstanding contribution is however not grounds for complacency. We want to build upon our sector's already strong local content practices and consolidate our already strong social licence to operate.

When approving new resources and energy projects, the Queensland Government has proposed that from March 2013 it will seek commitments from companies as part of an Environmental Impact Statement approval that they will adhere to this code.

Hence, whilst it has been drafted with significant greenfield and brownfield investment projects in mind, I encourage resources companies operating in Queensland to embrace the code during operating phases also.

The code's reporting framework will provide the Queensland Resources Council (QRC) and indeed all stakeholders with a rich source of information that should not only assist companies but also local content policy and the delivery of complementary commercial and government-funded programs.

The QRC has played a pivotal role in developing this code and intends to play an equally central role in its promotion and awareness.

Using dedicated resources on the QRC website, we aim to provide practical advice on procurement strategies; create opportunities for resources and energy companies to share success stories; and feature regular reporting and formal feedback mechanisms on the effectiveness of the code.

I am pleased to commend the Queensland Resources and Energy Sector Code of Practice for Local Content and am confident it will serve all Queensland industry well into the future.

Michael Roche

Michael Roche
Chief Executive
Queensland Resources Council

1 March 2013

PART 1: INTRODUCTION

The Queensland Resources and Energy Sector Code of Practice for Local Content (the code) is an industry led and owned self-regulated initiative. Compliance with the code is voluntary but strongly encouraged, particularly among the membership of the Queensland Resources Council (QRC). The support for the code from the Australian Petroleum Production and Exploration Association (APPEA) is welcomed.

The QRC is responsible for administering the code.

Under the code, Queensland operating resources and energy companies are encouraged to:

- adopt the principle of 'full, fair and reasonable' opportunity for capable local industry to participate and the associated delivery framework

- access the (secure) local content section of the QRC website to view guidance notes for participating resources and energy companies

- access the publicly available information about the Queensland Resources and Energy Sector Code of Practice for Local Content for broader information

- complete a Code Industry Report (CIR) annually to assist the QRC in completing the proposed annual Code Effectiveness Report

- participate in an annual forum of resources and energy companies and stakeholders where the code, company initiatives and associated commercial and government-funded programs will be discussed

- participate on the Code Steering Committee as appropriate.

The code is specifically designed to assist Queensland operating resources and energy companies to support local capable industry participation in significant greenfield and brownfield investment projects (with the intent that such practices may provide benefits for existing operations over the longer term).

It is anticipated that broad application of the code by the resources and energy sector will lead to improved engagement with local industry; improve the sector's local content reporting; facilitate the sharing of ideas among resources and energy companies; improve government local content policies and the delivery of commercial and government-funded programs.

1.1 Rationale

The government and resources and energy sector believe that an industry-led approach will produce better local content outcomes as companies have a vested interest in developing local supply chains. Furthermore, successful implementation has the potential to achieve a number of broader benefits, via:

- employment and business growth in Queensland by expanding market opportunities for local industry

- long term sustainability of local economies

- achieving a consistently renewed social licence to operate.

Ultimately, resources and energy companies reserve their right to make procurement decisions that do not compromise safety, quality, cost effectiveness or timeliness in delivery to achieve global competitiveness.

1.2 Application

The code is designed specifically for companies undertaking significant greenfield and brownfield resources and energy sector investment projects and may also be applied to the operational phase of projects.

The code is of particular relevance to those significant investment projects proceeding through the Queensland Government's Environmental Impact Statement (EIS) processes (Coordinator-General or Department of Environment and Heritage Protection). These agencies in approving resources and energy projects will seek commitments from proponents that they will adhere to this code.

As a consequence, Queensland-operating resources and energy companies adopting the code will not be required to complete and submit a Queensland Local Industry Participation Plan (LIPP) to the state government. A number of transition arrangements are proposed for proponents that have advanced and completed Coordinator-General Evaluation Report's (see page 8).

Access to government support services such as the Industry Capability Network or Enterprise Connect is not affected, and is recommended to assist resources and energy companies with implementing local content strategies.

Resources and energy companies will still be required to meet the principles of the Australian Industry Participation Framework (AIPF) and complete an Australian Industry Participation Plan (AIPP) when accessing the Australian Government's Enhanced Project By-law Scheme (EPBS) or receiving Commonwealth Government financial support as part of a project.

Companies in completing their AIPP are also requested to complete Code Industry Reports under this code.

The code is effective from 1 March 2013.

1.3 Definitions

For the purpose of the code:

Local industry	Refers to either an Australian or New Zealand business. Resources and energy companies may adopt a more regionally focused definition to align with local content strategies.
Australian business	A firm registered under the *Corporations Act 2001* (Commonwealth) as an Australian company or a legal entity authorised to conduct business in Australia, such as a natural person.
New Zealand business	A firm registered under the *New Zealand Companies Act 1993* or a legal entity authorised to conduct business in New Zealand.
Overseas business	An entity registered as a foreign company with the Australian Securities and Investments Commission under Part 5B.2 of the *Corporations Act 2001* and issued with an Australian Registered Body Number (ARBN).
Local content	Local engagement including employment, training and development, contracting and procurement of people, goods and services.
Full, fair and reasonable opportunity	Full means local industry has the same opportunity as other potential suppliers to participate in all aspects of a project from design through to completion, supply and ongoing maintenance. Fair means local industry is provided the same opportunity as other potential suppliers to compete for investment projects and other market based contracts on an equal and transparent basis. Reasonable means tenders are free from any unreasonable specifications or requirements that could rule out local industry and are structured in such a way as to provide local industries the opportunity to participate.
Capable	The necessary technical skills and capacity, and a demonstrated ability, to meet and adhere to the standards and compliance requirements of the project owner.
Stakeholders	A stakeholder may be a person, group, organisation or member who affects or can be affected by an organisation's actions. Stakeholders to Queensland operating resources and energy companies include (but not limited to) customers, employees, potential employees, investors, local communities, governments, government agencies, non-governmental organisations, community organisations, contractors, suppliers and the media. Stakeholders to QRC include QRC Board, QRC members, QRC employees, APPEA and its members, Queensland operating resources companies, contractors, supplier organisations and industry peak bodies, Queensland Government, government funded bodies, community and the media.
Project	Application of the code is particularly relevant to significant resources and energy sector greenfield (new) and brownfield (existing) investment projects, in particular those projects proceeding through the state government's EIS processes (Coordinator-General or Department of Environment and Heritage Protection).

PART 2: CODE PRINCIPLE

The overarching principle of the code is:

In accordance with a 'voluntary' self regulatory regime, provide full, fair and reasonable opportunity for capable local industry to compete for the supply of goods and services for significant projects.

Implementation and ongoing delivery of the principle is a shared responsibility, as depicted in **Figure 1: Code Implementation - A shared responsibility.**

Specifically in relation to the responsibilities of local suppliers, it is important that these companies are aware of the types of requirements commonly sought by resources and energy companies. Some of the more common requirements include:

Compliance with:

- health & safety management
- environmental management including waste management or other environmental procedures
- quality management.

The potential of suppliers to meet contract requirements is also important and usually entails an examination of:

- management systems
- technical capabilities
- resources
- commercial/financial capacity to support contract being tendered
- insurance cover
- business plans
- employment regulation.

In particular circumstances contractors may also be required to provide details concerning:

- how suppliers are selected
- approach to inventory management, and efforts made to minimise lead-times and stock holdings
- business planning processes that ensure continuity of supply
- details of key technical employees within contractor company
- the organisation chart of the company structure.

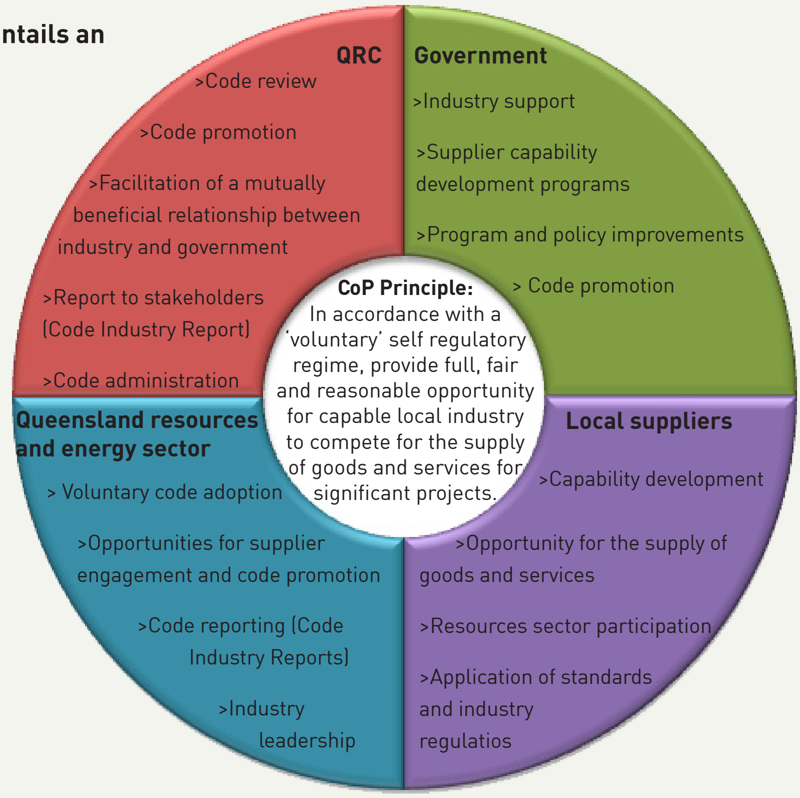

Figure 1: Code Implementation - A shared responsibility

PART 3: CODE FRAMEWORK

The following framework is designed as a high-level set of actions to assist with the implementation of the 'full, fair and reasonable' principle. The framework should be seen as a 'minimum' set of behaviours and should be implemented in conjunction with and complementary to a company's own business strategy.

Resources and energy companies are encouraged to access the following (secure) section of the QRC website to access a suite of practical resources designed to assist compliance with the Code Framework.

Click here to view the secure section of the QRC website.

The Code Framework:

1. Develop a Local Content Strategy

2. Utilise complementary capacity and capability-building programs

3. Monitor and evaluate Local Content Strategy effectiveness

3.1 Develop a Local Content Strategy

Local content strategies should:

• ensure the principle of the code is communicated and integrated within the procurement strategies and procedures of the company and within its supply chains

• ensure early and ongoing engagement of local industry:
> promote procurement opportunities to local industry (including effective communication of scope of works and tender opportunities)
> promote capability requirements to local industry

• identify capable local industry

• engage with contractors or subcontractors on the basis of the most competitive tender proposal, that shall include (amongst other things) consideration of direct and indirect cost factors, past performance, reliability, maintainability, innovation, whole-of-life costs, value, safety compliance, environmental sustainability performance, financial capability, and supply chain reliability.

3.2 Utilise complementary capacity and capacity-building programs

• Where possible encourage local industry participation in capacity building and sustainability programs as appropriate, whether government-funded or commercial.

3.3 Monitor and evaluate Local Content Strategy effectiveness

• Emphasis should be on the process as well as outcomes, that is:
> develop ways to assess the effectiveness of the process being the components of the Local Content Strategy (i.e. four bullet points under 3.1)
> develop quantitative mechanisms to assess local content outcomes by undertaking year on year comparative analysis of annual expenditure data.

PART 4: CODE ADMINISTRATION

4.1 Industry applicability

From 1 March 2013 the state government will seek commitments from project proponents as part of the EIS approval that they will adhere to this code. The code is specifically designed to assist resources and energy companies when undertaking significant green or brownfield resource investment projects. Application of the code beyond this is at the discretion of companies (for example, operational phase of the project or other current projects).

4.2 Relationship with Queensland and Australian Industry Participation Policy

From 1 March 2013, Queensland operating resources and energy companies with new projects who commit in their EIS to adopt the code for these projects will no longer be conditioned through the state government EIS approval processes to submit a LIPP to the state government.

In relation to EIS assessments through the Coordinator-General under the *State Development and Public Works Organisation Act 1971*, if a proponent commits to adopt the code, the final Coordinator-General's Evaluation Report (CGER) will acknowledge the proponent's commitment and emphasise the expectation that it will be implemented. If a proponent does not commit to adopt the code, the Coordinator-General may impose a condition to achieve the required outcome that local industry be given full, fair and reasonable opportunity to participate in all aspects of the project. Such a condition may state that 'As a minimum, the Queensland Resources and Energy Sector Code of Practice…must be implemented".

Resources and energy companies will still be required to meet the principles of the Australian Industry Participation Principles (AIPP), and specifically, complete an AIPP when accessing the EPBS or receiving Commonwealth funding for their projects.

Whilst the code and the AIPP are aligned, companies in undertaking an AIPP will also complete Code Industry Reports under this code. As AIPPs would be considered a higher level of reporting than that requested under this code it is not felt that this would create a significant amount of additional work.

Companies are encouraged to access relevant government services and promote adoption by local suppliers of capacity and capability-building programs when complying with the code.

State government transition arrangements

For Coordinator-General Evaluation Reports (CGERs) that are advanced but will be finalised after the implementation of the code, proponents can choose to:

- commit, in writing, to adopt the code; or
- continue with some or all of the current arrangements for local content.

For completed CGERs where proponents have been conditioned to have a Local Industry Participation Plan, as part of their Social Impact Management Plan, proponents can choose to:

- continue with current conditioned arrangements; or
- notify the Coordinator-General, in writing, that they wish to amend or replace the local content conditions by adoption of the code.

The Coordinator-General can choose to initiate a project change process or may require the proponent to submit a project change application.

The QRC will encourage proponents with existing projects who have not made a previous commitment to address local content to adopt the code.

Proponents will not be required to provide their Code Industry Reports (CIRs) to the state government if adopting the code. CIRs should alternatively be forwarded to QRC (see section 4.6).

4.3 Role of the QRC secretariat

In collaboration with APPEA, state government and stakeholders, the QRC secretariat will commit to the following to the best of its ability:

- provision of secretariat support for the code's broad administration and maintenance (ongoing)

- promotion of the code to key stakeholders (ongoing)

- development and maintenance of a dedicated webpage that will give companies applying the code access to further practical guidance material (ongoing)

- collect Code Industry Report's (to be completed by industry by 30 September, annually)

- facilitation of an annual Local Content Participation Forum of stakeholders where company initiatives and government programs will be discussed (to be held by mid November, annually)

- development and maintenance of the Code Steering Committee Terms of Reference (ongoing)

- production and dissemination to the Code Steering Committee a summary of the Code Industry Report key findings (to be completed by end of October, annually)

- preparation of a QRC Board paper outlining the sector's progress against the code with recommendations for improvement (as suggested by the Code Steering Committee in consultation with the sector - to be completed by mid November, annually)

- production and dissemination to stakeholders of an annual report on the effectiveness of the code and complementary government policies and programs (i.e. Code Effectiveness Report to be completed by year end, annually)

- facilitation of a formal code review by end 2015.

4.4 Code promotion

On an ongoing basis, the QRC will utilise a variety of means to promote and encourage application of the code to its new and existing members across the Queensland resources and energy sector with support from stakeholders including relevant government agencies.

4.5 Code Steering Committee

QRC's Code Steering Committee (CSC) shall be responsible for informally reviewing the effectiveness of the code; suggesting improvements for the QRC Board's consideration; and suggesting how the sector's reporting can be translated to improved supplier development activities.

The CSC shall meet at least twice per annum and be governed by a Terms of Reference.

At the approval of the QRC Board, the CSC shall consist of staff from the QRC and APPEA secretariats and at least one representative (most senior content expert within a stakeholder group) from the following key resources and energy industries:

- metals
- coal
- gas
- other (eg mineral sands, bauxite, liquid fuels etc).

Representatives from industry bodies and other related groups will also be invited. At least one representative from a supplier group representing a specialist sector and one from a wider industry supplier group will also be invited.

All appointments will be made under a rotation policy under a formal nominations process. The QRC board will endorse appointees to the CSC.

QRC will provide secretariat support with the Chief Executive of the QRC to chair the CSC.

4.6 Code Industry Report

All Queensland operating resources and energy companies are requested to submit a Code Industry Report (CIR) per annum to the QRC secretariat as defined in **Table 1: Guidelines for Code Industry Report.**

This report builds on the postcode data request (refer to the Queensland Economy website) the QRC has undertaken over the past number of years.

Table 1: Guidelines for Code Industry Report

Frequency	Annually
Report compilation and templates	Qualitative Information: • provide comment on whether local content has generally increased or decreased • provide evidence of how the 'full, fair and reasonable' principle and Code Framework (3.1, 3.2 and 3.3 above) has been applied • provide comment on the code, the code's supporting frameworks and the effectiveness of available capacity and capability-building programs • consider providing comment on why imported goods and services were not procured locally. A Microsoft Word template to assist companies complete the qualitative section can be found at the link: Code industry report template (Word) Quantitative Information: • spend data on goods and services procured locally (by postcode) and from other states and territories and internationally (aggregated) during the last 12 month period • more information is provided in **Appendix A: Spend data template - Quantitative information**. A Microsoft Excel template to assist companies complete the quantitative section can be found at the link: Code industry report template (Excel)
Due date	No later than 30 September each year
Submit to	Submit both Word and Excel templates to QRC secretariat via David Rynne, Director of Economics and Infrastructure (Davidr@qrc.org.au)
Report length	Maximum of 3 pages not including spend data
Reporting period	Most recent 12 month period (1 July to 30 June is preferable)

4.7 Report to QRC Board

The QRC secretariat will prepare for the QRC Board a paper annually outlining the resources and energy sector's progress against the code with recommendations for improvement (as suggested by the CSC in consultation with QRC members).

4.8 Report to stakeholders

The QRC secretariat will produce annually and disseminate to stakeholders a Code Effectiveness Report.

Informed by the CSC, CIRs and key discussions at the proposed annual Local Content Participation Forum, the report will:

- summarise the quantum and location of Queensland content procurement in the preceding year and associated socio-economic benefits
- give reasons why local content spend may be increasing or decreasing
- provide case studies demonstrating the effective application of the code
- provide feedback on the effectiveness of the capacity and capability development programs available, whether government-funded or commercial
- summarise the general progress of companies in meeting the Principle and code framework
- outline any recommendations of the QRC Board to amend the code.

4.9 Code review

A formal independent review of the code will occur by end 2015. The results of this review will be shared and discussed with the Queensland Government.

4.10 Receiving and responding to comments on the code

To comment on the code, stakeholders are encouraged to send written or emailed correspondence to the QRC Chief Executive via:

Mr Michael Roche
Chief Executive
Queensland Resources Council
Level 13, 133 Mary Street
Brisbane, Queensland 4000

(Via email info@qrc.org.au)

These comments will be responded to in a timely fashion by the QRC secretariat.

APPENDIX A: SPEND DATA TEMPLATE - QUANTITATIVE INFORMATION

Spend data on goods and services procured locally (by postcode) from states and territories ,and internationally (aggregated), should be provided using the following format where possible. Whilst the code focuses on significant investment projects, companies are requested to provide spend data on both capex and opex expenditures.

Please note that additional data on worker wages and community contributions by Queensland postcode will also be requested for the purposes of updating the Queensland Economy website.

Instructions & definitions:
Provide data for the full previous 12 month period in relation to supplier purchases (goods and services) including payments to contractors.

- **Scope of activities:**

>Please include data for all Queensland resources and energy investment projects (capex) and operation/s (opex).

- **Supplier spend:**

> Provide data (including opex and capex) categories as best as possible or alternatively provide consolidated spend data (opex and capex combined).
> Within the opex and capex categories (or consolidated spend), break the data down into three discrete sections:

1. Queensland spend by postcode
2. Each Australian State and Territory and New Zealand as aggregated amounts
3. Aggregated overseas spend. With this item, consider elaborating on the type of goods and services that were imported and why those items were not procured locally.

This data that is received is treated in the strictest confidence by the QRC secretariat. No individual company data will be put into the public domain.

To assist the QRC secretariat accurately disclose the quantum and location of procurement expenditure, reporting companies are requested to substitute large payments (>$350 million) made to large suppliers and contractors out of the postcode data, and where possible replace that data with the postcode spend data of that supplier or contractor.

For example, a payment of $420 million may have been made to the 4000 postcode to an Engineering, Procurement, and Construction Management (EPCM) under a services contract. This does not however accurately reveal the true source of manufacture or supply of goods and services. Companies would be requested in this instance to obtain from the EPCM their postcode spend data relevant to this supply contract. This may for example involve substituting the $420 million out of the 4000 postcode and replacing it with $400 million in spend from many different postcodes – some of which may be in 4000.

Please supply this information on the MS Excel spreadsheet provided at this link.

Compay Name: Velocity Resources Pty (for example) **Projects in scope:** Gunmala and Redmond Bay projects (for example) **12 month period:** FY 2011/12 (for example)			
SUPPLIER SPEND: Goods and services purchases	**OPEX ($)**	**CAPEX ($)**	**OR Consolidated ($)**
Section 1. Queensland spend by postcode:			
insert postcode	$0	$0	$0
insert postcode	$0	$0	$0
Total	**$0**	**$0**	**$0**
Section 2. Other States and Territories and New Zealand spend:			
Aggregated Victoria etc	$0	$0	$0
Aggregated New South Wales etc	$0	$0	$0
Aggregated New Zealand spend	$0	$0	$0
Total	**$0**	**$0**	**$0**
Section 3. Overseas spend:			
Aggregated Overseas spend	$0	$0	$0
Total (Sections 1,2 & 3)	**$0**	**$0**	**$0**

QUEENSLAND RESOURCES COUNCIL

LEVEL 13, 133 MARY ST, BRISBANE QLD 4000
T (07) 3295 9560 F (07) 3295 9570 E INFO@QRC.ORG.AU WWW.QRC.ORG.AU

Written and prepared by the QRC. The data for this publication is sourced from a number of public sources–notably the Australian Bureau of Agricultural and Resource Economics and the Australian Bureau of Statistics. For more information, contact the QRC on (07) 3295 9560 or http://qrc.org.au