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Dear Ms Deng,

I am writing on behalf of the Australian Industry Group (Ai Group) to provide our comments on the Federal Government's proposed measures to extend Australian industry participation.

Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia.

In August this year, Ai Group outlined the need for an enhanced approach to procurement across all levels of government in order to reduce complexity and cost and give Australian-based business opportunities that many are currently denied.<sup>1</sup>

We are therefore encouraged by the Government's recent announcements that it intends to implement measures to extend Australian industry participation with regards to a number of Government procurement activities. However, Ai Group believes that these measures should extend to Defence procurement to encourage a more consistent framework beneficial to project proponents and suppliers alike.

It is vital that these measures seek to build on best practice, rather than encourage the status-quo, it is therefore necessary to implement a review and enhancement process, led by the AIP Working Group.

Industry looks forward to ongoing consultation on this important issue to ensure the new measures underway enhance opportunities for local industry participation.

Yours sincerely,

**Heather Ridout**  
Chief Executive

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<sup>1</sup> Ai Group Media Release, "National procurement strategy needed to end unfair practices damaging Australian manufacturing" 24 August 2011.

## **Ai Group Submission Re: Consultation Paper on Measures to Extend Australian Industry Participation**

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million employees.

Australian businesses should have full and fair access to supply the goods and services required by the public sector and for major projects undertaken within Australia. There are, however, a number of barriers and distortions that frustrate and impede the full and fair participation of Australian suppliers. These barriers and distortions are exacerbating the intense competitive pressures currently being experienced by local, trade-exposed industries and particularly the manufacturing sector.

The major barriers and distortions are:

- An undue emphasis on upfront costs rather than whole of life costs in public sector procurement.

This emphasis results in the purchase of lower quality goods and services and neglects the costs involved in maintenance and through-life support which are key advantages that local suppliers are able to offer.

- An uneven weighting given to conformity with standards.

Local producers are required to produce to stringent Australian and International Standards and non-conformity or false claims of conformity are much more rigorously enforced than is the case with many imported alternatives. This puts local businesses at a disadvantage.

- Selection criteria (implicit or explicit) that include a record of supply in other countries as demonstration of credentials.

This favours offshore suppliers and is a particular barrier to emerging local businesses and domestic suppliers of innovative goods and services.

- Preference given to offshore suppliers.

Preference is often given by overseas-based prime contractors to sub-contractors and suppliers in their country of origin under explicit or implicit local preference arrangements and practices.

In major mining projects, overseas-owned mining companies often give preference to suppliers from their country of origin.

More recently there is increasing evidence that major, Australian-based mining companies, under arrangements explicitly or implicitly linked to raw materials supply contracts with China, are required to give preference to Chinese-produced capital equipment and other inputs used in Australia.

These barriers and distortions against local industry participation in government contracts and in major projects can be addressed by the adoption and adherence by government agencies of practices that adhere to purchasing principles set out below. For major infrastructure, construction and mining projects, governments should require prime contractors and holders of licences to adopt and demonstrate adherence to similar practices. These practices should work alongside programs aimed to facilitate local industry participation such as a strengthened Industry Capability Network.

## **Ai Group principles to enhance local supplier access to government procurement and major projects**

### **Principle 1: Value for Money**

Value for money looks beyond “least cost” and brings to bear a broader cost-benefit approach that considers whole-of-life costs, including in relation to maintenance, servicing, quality and ongoing supplier relationships.

### **Principle 2: Clarity, Transparency and Improvement of Processes**

Procurement processes should be clear and transparent and be subject to ongoing improvement to reduce costs of tendering and access for domestic suppliers, particularly small and medium-sized enterprises. .

### **Principle 3: Full and Fair Access**

Procurement processes should ensure local suppliers have full and fair to access to supply opportunities under direct government contracts and with prime contractors and for major projects. This includes consistency in relation to conformity with standards and no preferential treatment of offshore suppliers.

### **Principle 4: Full Opportunities for Local Suppliers**

Australian suppliers should have full opportunity to compete for the provision of goods and services under government contracts both directly and indirectly through supply to prime contractors. For major projects, a condition of awarding prime contracts and licences should be that local suppliers will have full and fair access to sub-contracting and supply arrangements.

Procurement plans should demonstrate how purchasers will facilitate opportunities for participation by local suppliers. Proactive strategies should be adopted to ensure a strengthened Industry Capability Network (ICN) informs local industry of opportunities and links purchasers with local suppliers.

Undertakings by purchasers should be monitored over the life of projects and purchasers should publicise the extent of participation by local suppliers.

### **Principle 5: Supporting Industry through Effective Planning and Communication**

Large government purchasing activities and major project plans should be developed in a transparent way to ensure local industry is able to invest sufficiently to participate in major tenders.

As much as possible, major procurement activities undertaken by Australian governments should be coordinated and staged to allow businesses scope to invest and achieve the economies of scale by aggregating demand across the federation.

## **Ai Group recommendations**

Ai Group proposes that all levels of government need to adopt a principled and coordinated approach (as outlined above) to improve access for domestic suppliers to public sector contracts and to the provision of goods and services for major projects undertaken within Australia.

The measures outlined in the Consultation Paper<sup>2</sup> are a good start for enhancing transparency and getting project proponents, government agencies and departments to more actively consider how procurement practices interact with and support local industry capabilities.

However, Ai Group believes that these measures can be further enhanced by adopting the following recommendations:

- AIP Plans and associated implementation plans should be published on one central website;
- it should be standard practice for the Department of Innovation to consult with ICN, Enterprise Connect and relevant Supplier Advocates on all AIP Plans;
- the AIP Working Group should be given the role, in consultation with industry, to review how the new measures are working in practice and provide recommendations to the Government for further refinement;
- the new requirements should apply to Defence procurement; and
- a suite of measures targeted at engaging SME's should be implemented (as outlined below).

### **Publishing Australian Industry Participation Plans and outcomes**

Making Australian Industry Participation (AIP) Plans public should occur via once central website, which over time, accumulates all relevant AIPP's and associated implementation reports related to the progress of AIP Plans. The templates set out in the Consultation Paper for estimating and reporting on local content are sufficient.

### **Implementation and Coordination**

A single point of contact will be important in providing ongoing support for local suppliers and project proponents alike. The Department of Innovation is well placed to take on the central role of providing guidance materials to Commonwealth, State and Territory agencies, companies and grant/funding applicants about their AIP obligations.

The Department will need to offer early support for grant recipients to prepare their AIP Plans and assess and approve all Plans to ensure consistency across grant programs.

The provision of guidance notes for grant applicants and recipients on how to prepare an AIP Plan, including on how to calculate local content for reporting purposes will be an important role for the Department as will providing guidance notes and model contract clauses for granting agencies.

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<sup>2</sup> Department of Industry, Innovation, Science and Research, Consultation Paper - *Measures to Extend Australian Industry Participation* November 2011.

Perhaps the most important role for the Department will be as a conduit and referral body for project proponents, government departments and suppliers to relevant ICN and Enterprise Connect Advisers and/or Supplier Advocates. It should be standard practice for the Department to consult with the ICN, Enterprise Connect and Supplier Advocates on all AIP Plans.

### **An ongoing role for the AIP Working Group**

Importantly, the *measures to extend Australian industry participation* (as outlined in the Consultation Paper) will provide an opportunity for the collection of data and intelligence on the state of local industry participation in major government procurement activities.

The AIP Working Group should be given the role, in consultation with industry, to review how the new measures are working in practice and provide recommendations to the Government for further refinement.

### **Australian Industry Participation Plans for Commonwealth funded major projects delivered by State and Territory Governments**

The Consultation Paper proposes that an AIP Plan will be required when Commonwealth Grants are given to State Governments for grants over \$20 million but only if the State Government doesn't have its own AIP Plan process in place for the project. If a Local Industry Participation (LIP) Plan is already required under State or Territory LIP policy, existing arrangements will apply.

Ai Group accepts that this policy is designed to reduce duplication and recognises that some State and Territory Governments have implemented measures that exceed those within the Federal Government's policy.

### **Additional requirements under the EPBS**

The 'further tightening' of the administration of the Enhanced Project By-law Scheme (EPBS) relates to:

- publishing opportunities for Australian industry participation on a public website;
- requiring project proponents of large EPBS projects (greater than \$2 billion) to report more frequently on AIP outcomes; and
- requiring approval of eligible goods as an additional step for large projects (greater than \$2 billion).

Ai Group views that these requirements are welcome enhancements to the Scheme, provided that appropriate support is provided to project proponents in complying with the new measures. The Department of Innovation, through its implementation and coordination role should ensure it takes a proactive role in assisting project proponents meet these new requirements.

### **Australian Industry Participation Plans for large Commonwealth Government procurements**

Ai Group believes that the *measures to extend Australian industry participation* should apply to Defence procurement activities. Whilst we recognise that the Department of Defence has its own industry participation programs, one approach that incorporates all federal

departments and agencies is most desirable to reduce the compliance burden on Australian businesses.

### **Additional measures to support SME engagement**

The Federal Government can further build on the measures proposed in the Consultation Paper and engage SME's<sup>3</sup> more effectively by implementing the following measures:

- Pre-qualification - For all procurements in common commodities, systems should allow suppliers to provide their prequalification data once – and not submit the same data time and time again.
- Require Federal Government departments to publish a set of specific, targeted actions to increase their business with SMEs.
- Launch of an interchange programme to get secondees from business into procurement teams and get civil servants out into the commercial world, with the intention of government learning from the best of private sector practice.
- Launch a Supplier Feedback Service so suppliers can tell the Government where there are still issues with procurements deterring SMEs.
- Launch of an 'Innovation Pitch Club' to enable selected SMEs to 'pitch' innovative products and services to a panel of senior procurement and operational professionals from the Federal government and the wider public sector.
- Establish and SME Panel to hold the Government to account on delivering these measures.<sup>4</sup>

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<sup>3</sup> ABS Cat no. 1321.0 - Small Business in Australia, 2001 defines small businesses as businesses employing less than 20 people and medium business as businesses employing 20 – 199 people.

<sup>4</sup> The six measures proposed are similar to those launched by the UK Government in early 2011. Outlined in *Procurement Policy Note – further measures to promote Small Business procurement*, Information Note 05/11 11 February 2011.