

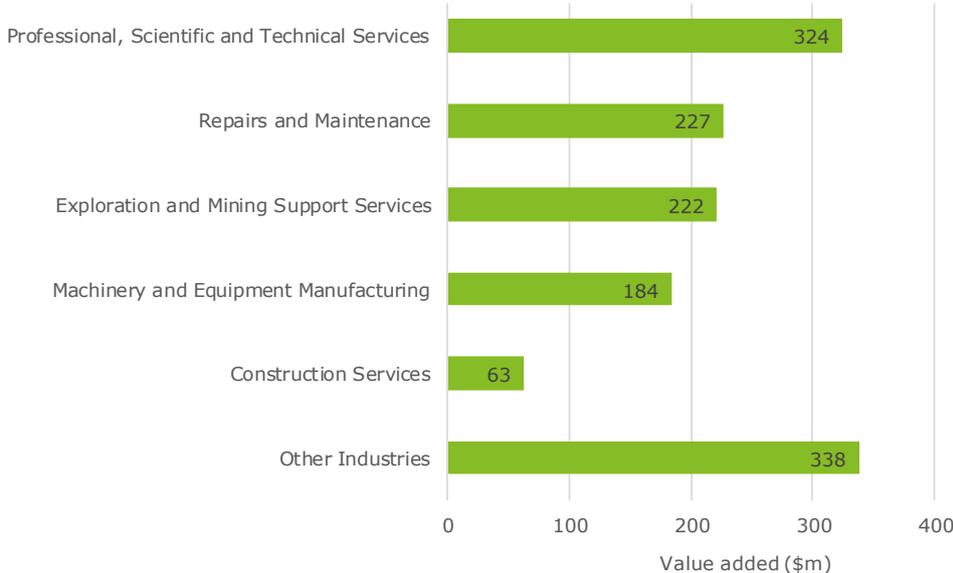
Overview of small business suppliers in the oil and gas industry

Oil and gas companies rely on various Australian businesses to provide goods and services that support their operations across the supply chain, and many of these are small businesses. The Australian Petroleum Production & Exploration Association (APPEA) has commissioned Deloitte Access Economics to examine the role and economic contribution of small business suppliers to Australia’s oil and gas industry, focusing on inputs to exploration, extraction and processing activities. This note summarises the key findings of the economic contribution study.¹

Almost half (47%) of suppliers engaged by oil and gas companies are small businesses.² Overall, these small business suppliers made a **total economic contribution** of almost \$1.4 billion in 2017-18. This was comprised of around \$710 million in direct contribution to Gross Domestic Product (GDP) from the small businesses’ own operations, and a further \$650 million of flow-on economic activity that is indirectly supported through these small businesses’ purchases of inputs. As a result of this economic activity, the total employment supported by small business suppliers is around 10,500 full-time equivalent (FTE) workers. Note this represents a conservative estimate of small businesses’ contribution to oil and gas supply chains, as it does not capture how small businesses contribute to larger companies that supply the oil and gas industry.

The largest economic contribution comes from professional, scientific and technical services at \$324 million (including both the direct economic activity created by small business suppliers in this industry, in addition to the indirect flow-on activity supported), as illustrated in Chart 1. Meanwhile, small businesses in the repairs and maintenance industry supported the largest number of jobs as a result of supplying the oil and gas industry, totalling almost 2,600 FTEs.

Chart 1: Total value added contribution for top five small business supplier industries, 2017-18



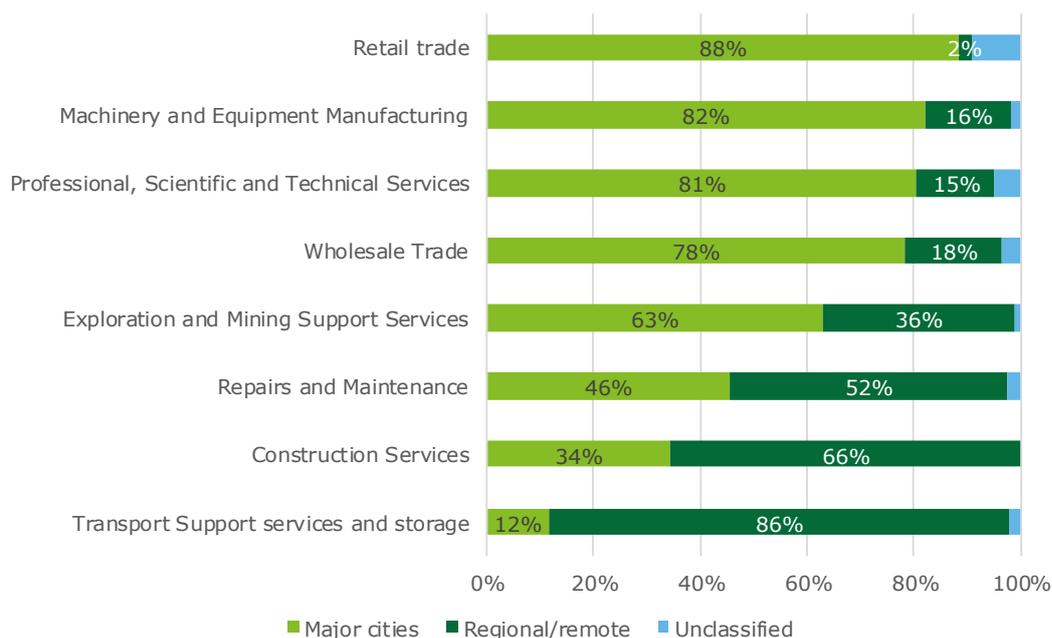
Source: Deloitte Access Economics modelling (2019).

¹ Deloitte Access Economics’ research was informed by a survey of 15 oil and gas companies and consultations with oil and gas companies and small and medium-sized suppliers. For further details on the research and modelling methodology, as well as a list of references, please refer to the accompanying *Methodology note*.

² For the purposes of the economic contribution modelling, small business were defined as those employing 1-19 employees, consistent with the Australian Bureau of Statistics’ definition.

Engagement with small business suppliers occurs across Australia, and the proportion of oil and gas company expenditure on small businesses in **cities versus regions** varies by industry. Chart 2 presents the proportion of oil and gas spend across a range of small business supplier industries.³ Retail trade, machinery and equipment manufacturing, and professional, scientific and technical services have the greatest proportion of their small business expenditure in major cities. Meanwhile, in several industries the majority of small business expenditure occurs in regional or remote areas, including transport support services and storage and construction services. Engaging with local suppliers across Australia's regions also means that oil and gas companies provide important employment opportunities to workers in these regional and remote communities, including amongst indigenous businesses.⁴

Chart 2: Small business spend by region, 2017-18



Source: Deloitte Access Economics survey of oil and gas companies (2019).

There are also a number of **broader economic benefits** of working with small businesses that are not necessarily captured in the economic contribution modelling. Economic contribution analysis captures the value added of the small business suppliers at a particular point in time, but does not account for any long term productivity gains or other benefits associated with different types of investment or business activities.

Working with small businesses can provide those businesses with access to innovation, training and education opportunities that would not have been possible without their engagement with oil and gas companies. This is notably the case where further training is required to undertake work on site, or a business is required to further develop and/or innovate their products to fulfil a contract or meet required specifications. By innovating and upskilling, small businesses are likely

³ The regional analysis provides an indicative snapshot of the variation in spend across different geographies, utilising postcode data on suppliers. However, this only provides an idea of where businesses are located, rather than where economic activity is generated. A business's activity and spend does not necessarily need to be restricted to its postcode of operation, with many businesses setting up offices in metropolitan centres, despite substantial operations in regional Australia.

⁴ This is discussed further in the *Regional small businesses working with the oil and gas industry* note, which includes an example case study on how one oil and gas company engages with indigenous businesses.

to contribute to longer-term economic benefits realised through productivity gains in either capital, labour or both.

Moreover, because the extraction and production activities of oil and gas companies are located in regional and remote Australia, engaging with local suppliers means that are likely to provide employment opportunities to workers in regional areas, including amongst indigenous businesses. A number of large oil and gas companies have a particular focus on improving the employment of the local indigenous population. These companies have often found that this not only strengthens business opportunities amongst groups that, on average, come from lower socioeconomic backgrounds, but also provides intangible benefits such as knowledge of the local area or access to otherwise restricted land.

Small business suppliers are likely to play an important role in the **future growth** of Australia's oil and gas industry. Their ability to rapidly develop and prototype new digital solutions and work with oil and gas companies to tailor and integrate these technologies into core business operations will be a key enabler of future innovations. These collaborations have significant productivity benefits for the oil and gas industry, and are increasingly required in order to maintain Australia's competitive advantage and seize future growth opportunities.

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