

# Regional small businesses working with 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 findings on how small businesses in regional areas work with oil and gas companies.<sup>1</sup>

Small businesses in regional communities may have a **geographic competitive advantage** in providing smaller-scale repairs, maintenance and support services in exploration and extraction for oil and gas projects in their local area. Regional small businesses can also be well-suited to providing the local accommodation, transport and hospitality services that are required to support oil and gas workers who reside in these areas as part of their employment in production and processing activities. Many oil and gas companies operating in Australia recognise the benefits associated with working with local small businesses in regional communities and work actively to assist local businesses in identifying procurement opportunities, as described in Box 1.

## Box 1: Working with local businesses in regional communities

Senex Energy Limited is an independent Australian oil and gas exploration and production company. The company manages a number of onshore oil and gas assets in Queensland and South Australia.

Senex prioritises the interests of local communities and procurement from local businesses in their operations. Given the regional locations that the company operates in, local businesses are often either small or medium sized. The company holds information sessions for projects prior to going to tender to procure goods and services. The purpose of these sessions is to help local businesses participate in the procurement process and ensure that knowledge of the project and process doesn't represent a barrier to engaging with Senex. According to Christopher Broom, Contracts & Procurement Manager at Senex Energy Limited, these sessions are used to outline the rough timeframes of the project and inform the community of goods and services that the business would prioritise purchasing locally. These goods and services typically include accommodation, catering, water, camp materials, and civil works.

Relationships and knowledge transfer with local businesses extend beyond the start of the project. Over the duration of projects, Senex organises quarterly information sessions which aim to provide an avenue for the local community to deliver feedback. The company then responds to the feedback to ensure that their projects are continuing to support local businesses sustainably. For example, recent feedback suggested that the benefits to local businesses were not being spread evenly across all local businesses in the accommodation sector. Having received this feedback, Senex began sharing their accommodation requirements across a number of motels in the community rather than relying on a single accommodation provider.

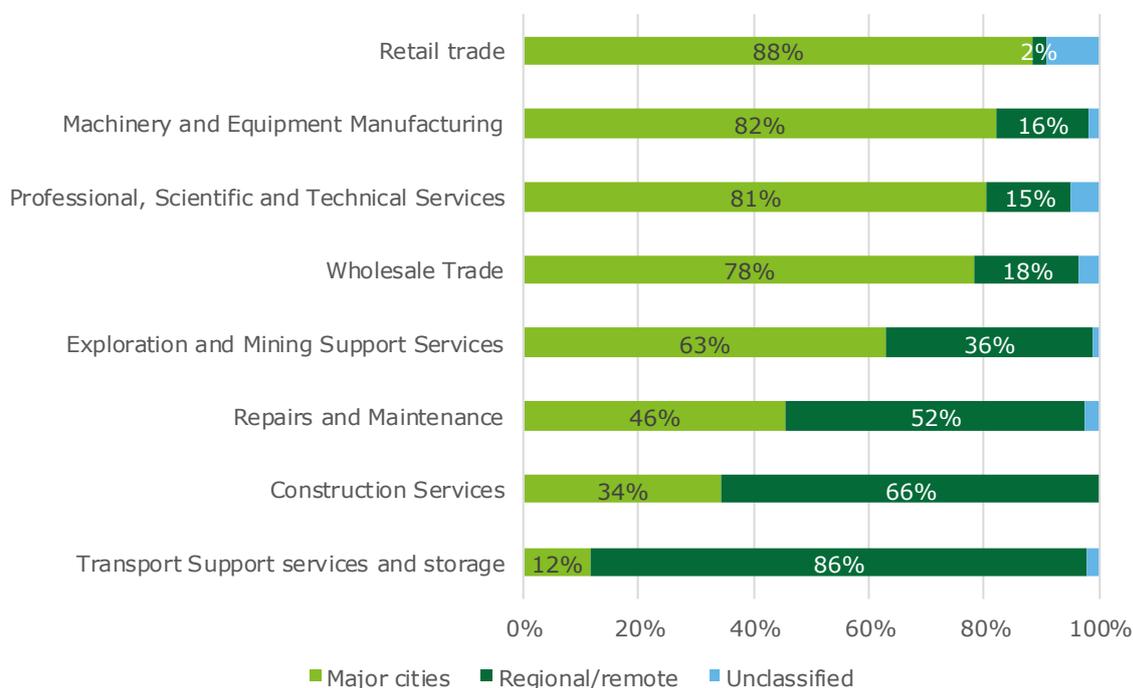
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<sup>1</sup> Deloitte Access Economics' research was informed by a survey of 15 oil and gas companies and consultations with oil and gas companies and small and medium-sized suppliers. For further details on the research and modelling methodology,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

Senex has found that prioritising local business suppliers has led to broader financial benefits. Chris estimates that it is approximately 15-20% less expensive to use small local suppliers compared to large businesses that are located at a distance from the project. This is primarily driven by the avoided costs of transporting and accommodating large external teams to the site.

Oil and gas company expenditure on small businesses in regional areas **varies across industries**. Chart 1 presents the proportion of small business spend across a range of small business supplier industries.<sup>2</sup> In particular, 86% of oil and gas spend on small businesses in transport support services occurs in regional and remote Australia, and 66% of expenditure on small businesses in construction services is in these areas. Box 2 outlines an example of a small business which supplies transport services to the oil and gas industry.

Chart 1: Small business spend by region, 2017-18



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

## Box 2: Transport services in the local oil and gas supply chain

Stonestreets is a transport business based in South West Queensland. The business currently has a fleet of about 100 buses and employs 130 staff. Stonestreets services a number of industries, including oil and gas operations.

Since the business' inception in 1990, the growth of the company has been supported by oil and gas contracts in Queensland. This includes a five year project in Gladstone for a combined LNG construction project which required the provision of almost 200 buses at its peak, with daily site services and R&R transfers [transfers to the airport at end of rosters]. The business continues to

<sup>2</sup> 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.

provide transport services to oil and gas companies such as Arrow Energy (and has since 2012) within the Surat Basin.

Working on large oil and gas projects enabled Stonestreeets to upgrade and innovate their bus fleet. For example, projects within the oil and gas sector often require a large fleet of buses and the associate use of technology to support and track buses for efficiency purposes. After working with this technology the company implemented a number of similar systems to provide vehicle and passenger tracking to other sectors of the business. This significant investment for the business provides additional safety measures for both charter and school services.

Some vehicles initially purchased to complete project work have now been deployed into the company's school bus fleet, providing seat belted and air conditioned vehicles on school runs.

Stonestreeets operated successfully in the project sector for some years, and has now consolidated its business to provide safe and efficient services across a number of sectors. According to Natalie Foster, the General Manager of Stonestreeets, "the business continues to compete with larger bussing companies, despite the significant financial imposts that operating in resource sector impose on small and medium businesses".

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. Box 3 describes an example of collaboration with local indigenous businesses.

### Box 3: Strengthening relationships with indigenous businesses

Origin Energy operates a substantial exploration and production portfolio in Australia, with oil and gas forming a part of their exploration, research and processing upstream operations. Origin actively engages with regional and Indigenous businesses, which are predominantly small and medium businesses operating in regional Australia. Origin spent \$126 million on regional procurement in the half-year ending 31 December 2018.

According to Liz Adams, a Senior Manager at Origin Energy, "we actively seek to engage local or Indigenous businesses to supply goods and services and have had success in areas such as civil work and maintenance, security, uniforms, catering and stationery". The company finds that consulting with, or procuring from, regional or Indigenous businesses can strengthen Origin's relationship with the community.

Origin finds that smaller businesses can be more agile and responsive to needs, compared to larger companies which can have more administration requirements to satisfy. Intercept Supply Co is an example of an Indigenous-owned and operated small business that has worked with Origin offering t-shirt design and product services. Their ability to demonstrate innovative and unique t-shirt designs based on a logo provided to them by Origin, and visualise these electronically prior to production, as well as their commercially viable and pioneering use of recycled materials was the key to Origin's decision to work with them.

Origin continues to actively engage with small and/or indigenous businesses through adopting a collaborative approach. Liz believes that “a focus on social responsibility provides an opportunity to create mutual benefits for both Origin and Indigenous businesses”. For example, Origin has partnered with Many Rivers on a marketplace initiative connected to understanding the challenges and opportunities for Indigenous businesses working with large organisations. The purpose of this partnership is to connect and discuss experiences on Indigenous businesses, tendering and contract management, to assist with the development of sustainable growth models in the future.

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